FINANCIAL TIMES

Friday June 26 1992 | EUROPE'S BUSINESS NEWSPAPER | D8523A

Strong US growth fails to quell calls for rate cut

The US Commerce Department revised upwards its estimate of first-quarter economic growth to an annual rate of 2.7 per cent, the best performance since President George Bush took office. However, many forecasters are worried by more recent evidence that growth is again flagging.

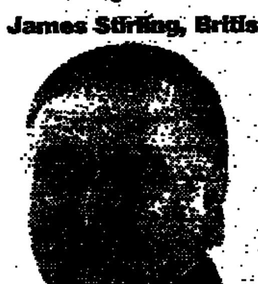
Remarks from Michael Boskin, chief White House economist – to the effect that "sluggish growth" was a greater risk than a resurgence of inflation – added to pressure on the Fed to ease monetary policy. Page 6

Iran-Contra scandal: The special prosecutor in the Iran-Contra scandal has "new and disturbing evidence" in his investigations as to whether officials at the "highest level of the government" broke the law over a 1985 US arms shipment to Iran via Israel. Page 18

BCCI: Creditors of the collapsed bank made a last-ditch attempt to prevent the implementation of an agreement between the government of Abu Dhabi, BCCI's majority shareholder, and its liquidators, which they feel is inadequate. Page 18

Opel, German subsidiary of General Motors of the US, expects a further drop in profits during 1992 after a 19 per cent decline in net income last year to DM1.1bn ($687m). The drop reflects the shift in business towards export markets where margins are lower. Page 19

James Stirling, British architect, dies:



James Stirling, the internationally renowned architect, died suddenly yesterday in London. He was awarded a knighthood earlier this month, a belated recognition in the UK of his status as an architectural giant. Stirling, a member of the avant-garde much influenced by the later work of Le Corbusier, revelled in his reputation as the *enfant terrible*. His Cambridge History Faculty Library building (1964-67) became a rallying point for British anti-modernists. Obituary, Page 12

Rabin firm on violence: Five people – three Arabs and two Israelis – were killed in the West Bank and Gaza Strip, prompting a promise from newly elected leader Yitzhak Rabin to deal harshly with those who "murder and incite". Page 4

Lasmo, UK oil exploration and production group, said that planned US property disposals worth at least $200m would more than offset the reduction in the amount raised from the flotation of Ultramar Corporation. Page 19

Anglo American Corporation, South Africa's largest company, signed a ground-breaking labour relations deal with the National Union of Mineworkers aimed at eliminating violence in the mines and the violation of labour and civil rights. Page 4

Mission Energy of the US will head a consortium to build the 2,400MW Paiton power project in east Java. Indonesia's decision is a rebuff to Intercontinental Electric of the US which has been negotiating for at least part of the $3.6bn project. Page 6

Wellcome Trust, UK medical charity, is to sell 330m shares in drug company Wellcome in next month's international tender offer. At the closing share price of 914p – up 1p – the offer would be worth £3bn ($5.6bn). Page 19; Lex, Page 18

Ossetians hit at 'sell-out': South Ossetian officials condemned a deal between Russia and Georgia aimed at ending three years of ethnic conflict in the breakaway region. Page 3

Midland Bank of the UK is considering buying Peru's Banco Popular, Peru's lossmaking state-owned bank. Page 6

Ercros, debt-burdened Spanish chemical conglomerate controlled by the Kuwait Investment Office, edged closer to receivership as talks broke down over the sale of a majority stake in its fertiliser subsidiary. Page 20

Brown Shipley, small UK merchant banking group, is to be broken up after making an annual pre-tax loss of £27.1m ($50m). The group's holding company now consists of stockbroking and investment management businesses with a net asset value of £17.3m. Page 19

Guangdong, fastest growing province in China, plans to expand at an annual rate of 13 per cent for the next 20 years in its drive to catch up with Asia's other high-growth economies. Page 4

■ STOCK MARKET INDICES

FT-SE 100:	2,557.3	(+24.7)
Yield	4.79	
FT-SE Eurotrack 100	1,148.67	(+3.58)
FT-A All-Share	1,234.78	(+0.8%)
Nikkei	18,143.72	(+290.05)
New York lunchtime:		
Dow Jones Ind Ave	3,297.12	(+6.42)
S&P Composite	404.69	(+0.86)

■ US LUNCHTIME RATES

Federal Funds:	3⅞%
3-mo Treas Bills: Yld	3.71%
Long Bond	102⅛
Yield	7.8%

■ LONDON MONEY

3-mo Interbank	10⅛%	(10⅛%)
Liffe long gilt future:	Sep 97⅞	(Sep 97⅞)

■ NORTH SEA OIL (Argus)

Brent 15-day Aug	$21.525	(same)

■ Gold

New York Comex	$344.6	(342.8)
London	$343.35	(342.65)

■ STERLING

New York lunchtime:		
$	1.892	
London:		
$	1.8915	(1.878)
DM	2.9175	(2.915)
FFr	9.8125	(same)
SFr	2.6325	(2.6375)
Y	237.25	(237.75)
£ Index	93.3	(93.1)

■ DOLLAR

New York lunchtime:		
DM	1.541	
FFr	5.195	
SFr	1.3985	
Y	125.4	
London:		
DM	1.542	(1.552)
FFr	5.1875	(5.225)
SFr	1.392	(1.4045)
Y	125.40	(126.65)
$ Index	61.4	(61.6)
Tokyo close Y 126.62		

Austria	Sch30	Hungary	Ft162	Malta	Lm0.60	S.Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Peso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 19,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

UN considering military intervention in Bosnia

By Robert Mauthner, Diplomatic Editor, in London and David Buchan in Lisbon

INTERNATIONAL military intervention in Bosnia may be considered by the United Nations Security Council within the next week, if ceasefires in the region continue to break down.

European Community heads of government meeting in Lisbon today are also expected to express their willingness in principle to support such intervention.

The five permanent Security Council members have been holding intense consultations over the last few days on stepping up sanctions against Serbia.

It is widely expected that, within the next week, the council will be asked to approve a resolution which could even go as far as providing for international military intervention in Bosnia.

At talks in London between Mr Edward Perkins, US ambassador to the UN, and senior Foreign Office officials, there was general agreement on the need for urgent action to stop the slaughter of civilians in Bosnia and to allow Sarajevo airport to be opened to humanitarian supplies.

Whether such action would include the use of military force remains to be decided. But Mr James Baker, US secretary of state, said this week the US had not ruled out participation in "some multilateral operation", if that should become necessary.

Since then, officials have indicated that the "permanent five" have been talking in terms of military intervention if Serb militias continue to obstruct UN relief operations in Sarajevo and, continue to stop relief being sent through the city's airport.

The nine-nation Western European Union might be among organisations called upon by the UN to supply military forces for the region. A newly constituted ad hoc group of WEU foreign and defence ministry officials is due to meet in London today to discuss contingency plans for the despatch of joint military units to flash-point areas such as Yugoslavia.

WEU ministers agreed in Bonn last week to give the organisation a genuine military capacity, which would enable it to take part in international peacekeeping and peacemaking operations.

However, member countries made clear in their so-called "Petersberg Declaration" that they would participate in peacekeeping and peacemaking activities only at the request of other international organisations such as the UN. Moreover, each member state would retain the right to refuse to take part.

Portugal, which currently holds the EC presidency and which is also a member of the WEU organisation, has being canvassing the idea of European intervention to get aid to Sarajevo.

Officials in Lisbon claim that even Britain, which has been the most reticent about military involvement in Yugoslavia, has agreed that a limited operation in Sarajevo was militarily feasible.

Lisbon summit, Page 2
EC enlargement, Page 18

Horton is ousted as chairman of British Petroleum

By David Lascelles, Norma Cohen and Maggie Urry in London

MR ROBERT HORTON, the chairman and chief executive of British Petroleum, the UK's top blue chip company, resigned last night in what appeared to be a coup by his fellow directors.

In a sudden announcement after the London stock market closed, BP said its 16-member board had accepted his resignation "with considerable sadness".

But board members also made clear that they were concerned about the concentration of power in the hands of Mr Horton, one of the UK's most forceful business executives.

Mr Horton's position is to be split between Lord Ashburton, a non-executive director, who becomes chairman, and Mr David Simon, the chief operating officer, who will take over as group chief executive.

Mr Horton, who is 52 and only assumed his position in 1990, said: "I have reluctantly concluded it is in the best interests of BP that I should leave the company. I do so in the knowledge that BP has a fine team to see it through a difficult period, which has combined low product prices with a depressed chemical industry performance."

Last night's developments come at a time when BP is under severe financial pressure because of the recession and the weakness of the oil price. The company is going through a £750m-a-year cost-cutting exercise which is resulting in the loss of hundreds of jobs. The policy earned Mr Horton the soubriquet "Hatchet Horton".

But directors made clear that it was problems of personality rather than business strategy which lay behind the decision to replace Mr Horton.

Lord Ashburton, formerly Sir John Baring of Barings, the UK merchant bank, said he and fellow directors had been increasingly concerned about the way BP was being run.

"We came to the unanimous conclusion to discuss with Bob Horton the need to make a change at the top," he said. He said directors believed the governing structure of BP should be changed to split the role of chairman and chief executive, and particularly that BP should have a full-time chief executive.

■ Lex .... Page 18
■ Toughess not enough Page 19

Asked whether Mr Horton's personal style, which has been described as arrogant and abrasive, played a role in the board's decision, Lord Ashburton said: "We felt the company would be better organised if we had a change of individual".

He said there was nothing specific in Mr Horton's handling of the company which had prompted the directors to act. "It was an accumulation of feelings, of events, all quite small in themselves," he said.

Lord Ashburton said that BP was fortunate in having in Mr Simon "a successor as chief executive who has wide experience of the group."

He said there was nothing specific in Mr Horton's handling of the company which had prompted the directors to act. "It was an accumulation of feelings, of events, all quite small in themselves," he said.

The non-executives directors' anxieties grew over some months. Finally, at a meeting earlier this week they confronted Mr Horton with the need for change. When he saw the position, Mr Horton immediately offered to resign. The executive directors, who are in a minority, supported the changes.

A further board meeting, from which Mr Horton was absent, took place yesterday afternoon to ratify the changes.

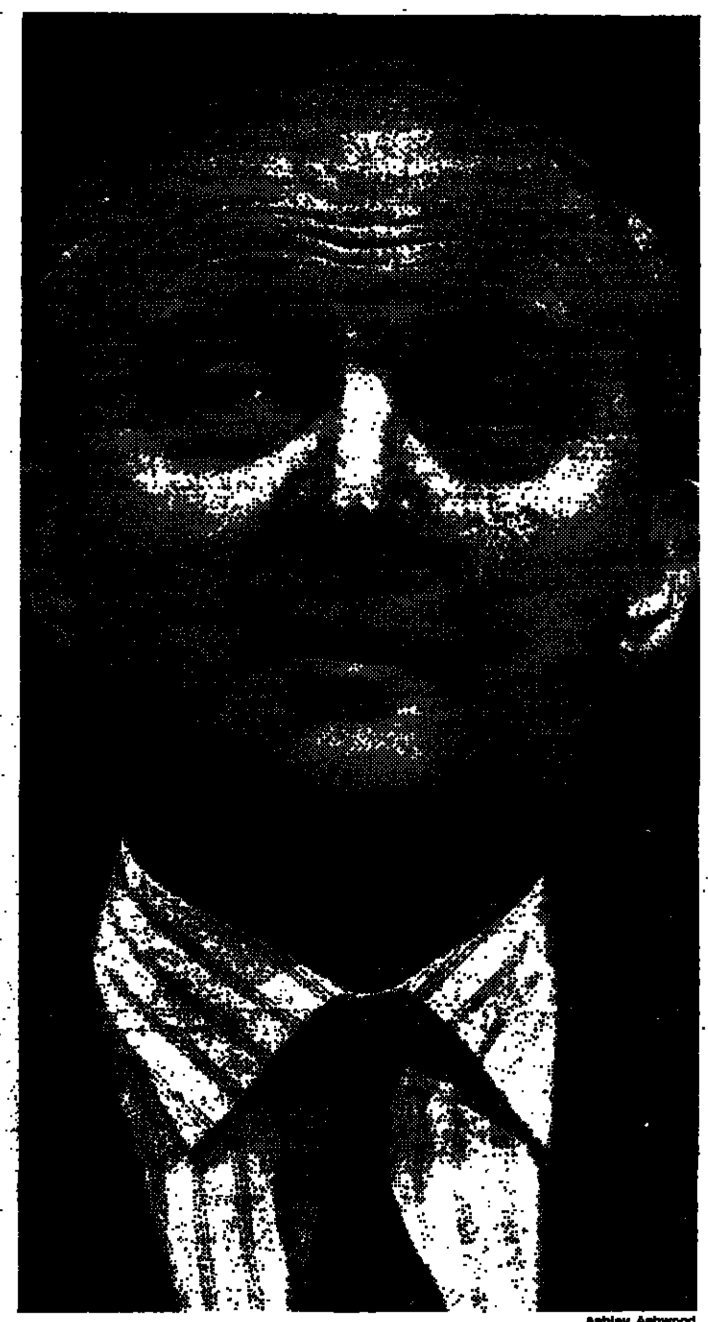
Mr Simon, 52, had previously held positions as chief financial officer and chief executive of BP Oil, the group's exploration and production arm. He was also Mr Horton's chief rival for the top job when it fell vacant in 1990 with the retirement of Sir Peter Walters.

His appointment to the chief executive position last night will be widely seen in the City as a sweet, if belated, victory in that earlier contest.

It was also expected to be a popular choice within BP where Mr Horton's manner had not endeared him to staff. The combination of his dominant personality and the severe job cuts had begun to depress morale.

But Mr Simon stressed that last night's upheaval would not result in dramatic changes in BP's business direction or in wider staff or structural changes. "This is about the style of run-

Continued on Page 18



Ashley Ashwood

Robert Horton: 'reluctantly concluded' he should resign

De Klerk announces day of mourning

By Michael Holman and Philip Gawith in Johannesburg

PRESIDENT F.W. de Klerk, in an unprecedented response to the violence in South Africa, yesterday declared next Monday's funeral of the 42 victims of the Boipatong a day of national mourning.

The violence has cost over 13,000 lives since September 1984.

Mr de Klerk announced last night that the government would allow its employees to attend the funeral and "related mourning services" and called on the private sector to do the same.

In making the announcement, Mr de Klerk was in effect doing exactly what the African National Congress had asked for earlier this week. Although he made no mention of the ANC's call, Mr de Klerk may nonetheless have helped ease tensions on what will be an emotional and fraught occasion.

"It is the government's sincere prayer that the atrocious events at Boipatong will finally cause all South Africans to reflect."

The announcement came at the end of day of local and international efforts to break the country's political impasse.

Chief Emeka Anyaoku, the Commonwealth secretary-general, is expected to arrive in Johannesburg by the weekend for a meeting with Mr de Klerk, while the UN secretary-general, Mr Boutros Bout-

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Anglo signs Labour code, Page 4

UK accuses French trawler over 'unprovoked attack'

By Richard Evans in London

ROYAL NAVY officers yesterday boarded a French fishing boat off the Isles of Scilly following an "unprovoked attack" by French trawlermen on Cornish boats over disputed fishing rights.

Mr David Curry, UK fisheries minister, told the House of Commons there had been a "violent and outrageous" incident, and the UK government intended to bring sustained pressure on the French authorities "to make sure their vessels are brought to book".

The incident, one of several in recent months as a bilateral fishing agreement is being drawn up, has created anger among the Cornish fishing community and some UK MPs, but might not develop into a full-scale diplomatic row between London and Paris.

The UK government, while taking a tough line, clearly does not wish to see unnecessary friction with France as it takes over the European Community presidency, and the French authorities were taking a conciliatory line yesterday.

Mr Curry said Mr Charles Josselin, French secretary of state for the sea with responsibility for the fishing industry, had "vigorously condemned" the behaviour of the French boats, and had pledged a full investigation followed by firm action should the allegations be confirmed.

HMS Brecon, a minehunter and fisheries protection vessel, was sent to the scene, 16 miles north of the Scilly Isles, following a dispute involving three small boats from Newlyn in Cornwall and two larger French vessels from Concarneau in Brittany.

The Cornish vessels alleged that the French deliberately ploughed through their nets and when the St Uny, one of the Newlyn boats, approached one of the French vessels, the Larche, to advise it on the position of its nets, it was pelted with lumps of metal and pieces of chain.

A second incident was also reported to have taken place between the Larche and the St Uny. No one was hurt in either incident, although several thousand pounds of damage was said to have been done in the first attack to the Cornish boats' nets.

Officers from HMS Brecon later boarded the Larche, with the permission of its skipper, to seek further information about the incidents. They also planned to board the St Uny and to remain on patrol to prevent any further confrontation. The clashes are the culmination of incidents going back several years.

Fishermen's groups from Britain and France are on the point of reaching agreement on fishing rights beyond the six-mile territorial limit. The area where the incidents took place is being divided into "boxes" to prevent such clashes happening, but details have yet to be finalised.

CONTENTS

NEWS: THE LISBON SUMMIT

A mix of money, members and making decisions

THE LISBON SUMMIT

THE EUROPEAN Community summit which starts in Lisbon today promises to be an unusual mix of the predictable and unpredictable.

Two things are sure. One is that EC leaders will tackle three main problems – the shape of Community finances for the 1990s, the degree to which the EC should be run in a more decentralised manner, and the rate of admission of new countries.

The second certainty is that none of these problems is ripe for final settlement. But the Lisbon summit looks likely to determine the key inter-relationship of all three issues, though quite how is this summit's most unpredictable element.

Indeed, this trio of big issues has already become linked into the overwhelming question mark placed over the Community by the uphill struggle to ratify its Maastricht union treaty.

● Financing. The Portuguese presidency has put this at the top of the agenda, to be discussed first thing this morning, not least because Portugal, along with Spain, Ireland and Greece, stands to get a further doubling of EC structural aid over the next few years under the Commission's budgetary plans.

Spain, in particular, has warned it might not ratify Maastricht unless it gets a firm pledge at Lisbon of sufficient "cohesion" aid. This threat is weakened by the fact that Denmark's rejection has already placed Maastricht in danger, but it cannot be ignored. Mr Jacques Delors, the commission president, has already sought to bridge the EC's north-south gap by this week conceding that his plan to raise EC spending by one third, from Ecu63bn (£44bn) this year to Ecu83bn in 1997, could be spread over two further years. An increase in the Community's revenue ceiling could be similarly stretched out over the longer period.

The EC south might swallow this, provided Lisbon indicates that any scaling down of Mr Delors' spending plan would hit policies such as EC research programmes rather than cohesion aid.

But the volatility of EC spending will be underlined by discussion at Lisbon of Italy's milk quota problem. Future EC spending plans are based on the assumption that farm expenditure will be brought under control by the recent common agricultural policy reform, the one big triumph of Portugal's presidency. But Italy nearly derailed this reform, by insisting on a big increase in its milk quota, in order to avoid a fine of as much as Ecu1.5bn for massive over-production of milk. Italy has carried its demand to Lisbon.

MR POUL Schlüter, Denmark's prime minister, will tell his 11 partners at the Lisbon summit that his parliament's powerful market affairs committee has ruled out a new referendum on the Maastricht Treaty, writes Hilary Barnes in Copenhagen.

The electorate rejected the treaty in a June 2 referendum. Mr Bjørn Westh, from the opposition Social Democratic Party, said the referendum result was binding and could not simply be reversed.

The consequences of the referendum rebuff are not on the agenda in Lisbon, but Mr Schlüter said he expects to discuss the matter.

● Subsidiarity. In the wake of Denmark's rejection of Maastricht, Mr Delors has readily seconded the insistence by German chancellor Helmut Kohl and UK prime minister John Major that the issue of Brussels' giving national governments more role in administering EC rules should get a thorough airing at Lisbon.

The EC leaders will first want to hear from Mr Delors on this. He is increasingly making the link between Community policy ambitions and subsidiarity in the area of EC research. The Commission president this week admitted his disappointment that most states oppose his plan to boost EC industry's international competitiveness through expanded EC-wide research. Poorer states feel they do not have the high-tech companies to benefit, while some richer countries, such as Germany and the UK, are ideologically inclined against more public interventionism.

What lies behind Mr Delors' controversial suggestion of subsidiarity in the control of state aid is his feeling that, if the Community will not help its industry more, then it must leave individual governments freer to do so. With the commission poised, for instance, to approve next week FFr6.8bn (£670m) in French state to Bull. France's publicly owned computer company, this line of Mr Delors may give leaders such as Mr Major pause about subsidiarity.

● Enlargement. The Maastricht summit last December instructed the commission to report on the overall implications of enlargement – accepting new member states. The Danish rejection of Maastricht killed earlier commission ideas that major institutional reform – going beyond anything in the Maastricht pact – must accompany enlargement. But the final version of the commission paper says "the new treaty [Maastricht] must be ratified" before entry negotiations can start with Austria, Finland, Sweden and Switzerland.

This pre-condition is likely to get backing from virtually all leaders, but not Mr Major. Much of the division here turns on which is the best tactic for prompting the Danes into second thoughts on Maastricht – to hold their desire for enlargement hostage to full treaty ratification or (as the UK believes) to let fellow Nordics lead them into the new European union. By contrast, all leaders are agreed that other applicants for EC membership – Turkey, Cyprus and Malta – must be left in the waiting room.

Major defies critics to back Delors

By Philip Stephens, Political Editor

MR John Major, the British prime minister, yesterday openly challenged Euro-sceptics within his own Conservative party by confirming his government's support for a two-year extension of Mr Jacques Delors' term as president of the European Commission.

The decision, endorsed by his cabinet before Mr Major flew to Lisbon for today's opening of a two-day European Community summit, was followed by an emphatic pledge by the prime minister that the government intended to ratify the Maastricht treaty on European union.

But in an attempt to isolate party critics, the so-called Euro-sceptics, ministers again emphasised that the government would use its forthcoming six-month presidency of the EC to rein back the commission's powers.

Mr Tristan Garel-Jones, the Foreign Office minister responsible for Europe, said the priority of the presidency would be to give substance to the concept of subsidiarity.

Mr Major intends to press the summit for a declaration giving the Commission and the presidency a mandate for that goal. He will also seek a commitment by EC leaders to finalise during the next six months a negotiating stance with the countries in the European Free Trade Association (Efta) on their applications for membership.

Mr Major told the House of Commons he had no intention of "compromising" the Maastricht agreements on political and monetary union.

He reminded Euro-sceptics they had been elected on a manifesto pledge to implement the treaties, adding: "I have no intention of breaking the word of the British government. . . neither do I have any intention of compromising what we agreed on that occasion and wrecking this country's reputation for plain dealing, honest dealing and good faith."

The rebels, however, insisted that they were still intent on wrecking the legislation needed to ratify the treaty when it returns to the commons later this year. Mr John Smith, the prospective leader of the opposition Labour party, has indicated that the party was also likely to support attempts to prolong indefinitely debate on the legislation.

Downing Street said that the decision to back a two-year extension of Mr Delors' term came after a brief cabinet discussion. Ministers agreed that, with no other candidate for the job, opposition to Mr Delors would have been what one called a "futile gesture".

Summit security: an officer checks documents ahead of today's meeting of EC leaders

Working time directive will affect UK the most

By David Goodhart, Labour Editor

THE European Community's working time directive, now limping towards the EC statute book, will have only a marginal effect on working time in most EC countries. But, eventually, it could come to be seen as a watershed in UK industrial relations.

Britain, and to a lesser extent Ireland and Denmark, will for the first time have to introduce statutory minimum employment rights covering the working week, annual holidays, night shifts and minimum daily rest periods.

The UK government has succeeded in stripping out what it found most objectionable, and UK and European employers' bodies have generally welcomed the outcome for a directive that most of them opposed in principle. Equally, the trade union vision of a net of basic Europe-wide minimum standards at work has edged forward enough for Mr Norman Willis, president of the European Trades Union Congress, to hail the agreement as a "major step".

The most critical response came from the UK Institute of Directors which said: "We have conceded to the EC the right to lay down Britain's labour laws. This deal opens the door for the many other social and employment measures which the EC has lined up."

In fact, the EC has already laid down labour laws relating to mobility, health and safety, and written contracts of employment, among other things, and after the exhausting dispute over the working time directive there is unlikely to be a rush into further legislation.

Indeed, the working time directive itself has still not been passed. There is an "understanding" between the 12 employment ministers covering most important aspects of the directive but a dispute between the French and German governments has held up a final deal, probably until December. A further three years then elapse before the directive becomes law. Several categories of worker, such as the self-employed, and some industries, such as transport, are indefinitely exempted.

In the UK, most attention has been focused on the proposed 48-hour limit on the working week – averaged over at least three months – and the suggestion that Sunday should "in principle" be the day of rest.

The Sunday proposal has been diluted and the UK has won a special exemption allowing overtime over 48 hours provided it is voluntary. Britain will, however, have to provide legal protection for workers who do not want to work more than 48 hours a week, and employers may have to keep additional working time records.

The other 11 countries – where employees will not be allowed to work over 48 hours – will only have to make small changes to present arrangements. As the table shows, most of the 11 already have weekly or daily limits. When overtime, itself restricted, is added, some employees in those countries do currently breach the 48 hour limit by a few hours.

The other important proposals in the directive are: minimum three weeks' paid holiday rising to four weeks in 1996; an eight-hour limit on night shifts; an 11-hour minimum daily rest period and 35 hours' consecutive rest once a week.

All the above – except for the holiday proposal – are subject to revision if employers and employees agree at local or national level.

The holiday legislation will affect Germany which has a minimum of 18 days; Greece, where there is no paid holiday for the first year; Ireland which has three weeks and Italy which has no minimum. But UK employers will be most affected. The Low Pay Unit estimates that 1.3m employees have no paid leave at all and 3m have less than four weeks.

All in a year's work, Page 11

HOW HARD EUROPE WORKS

Country	Max hours (excluding overtime)	Min. holiday
UK	none	none
Belgium	42	4 weeks
Denmark	none	30 days
France	39	30 days
Germany	48	18 days
Greece	48	4 weeks
Ireland	none	3 weeks
Italy	48	none
Luxembourg	40	25 days
Netherlands	48	4 weeks
Portugal	48	21 days
(office workers)	42	21 days
Spain	40	30 days

Source: Industrial Relations Services

Brittan acts tough over competition

By Andrew Hill in Brussels

SIR Leon Brittan, the EC competition commissioner, yesterday made clear that Brussels would be giving up none of its current powers over competition to satisfy calls for lighter Commission involvement in member states' affairs.

In a speech in Bonn, Sir Leon held up Commission competition policy as a prime example of subsidiarity in action. His speech follows hard on the heels of comments by Mr Jacques Delors, the Commission president, on Wednesday which suggested that the principle could be applied more widely to "competition and state aids rules".

Sir Leon underlined that existing Commission practice when dealing with state aid, mergers, cartels and alleged abuses of a dominant position already provided for national action where appropriate.

He reminded his audience that the Commission had recently devolved to member states the responsibility for investigating many subsidies to small and medium-sized companies. He said he was planning to clarify the role of national courts in applying EC competition law.

But he was adamant about which authority should examine state aid which might distort competition across the Community. "No country can police itself, and yet policing is clearly essential if a true common market is to exist," he said. "The way to apply the principle of subsidiarity in this area is not for the Commission to absolve itself from its responsibility."

"It is true that the thresholds [above which mergers are automatically examined in Brussels] are too high at present to include in the Community's jurisdiction all concentrations having Community-wide effects," he said. Competition officials are examining whether the threshold level should be lowered when it comes up for review next year.

Sir Leon also repeated his view that anti-competitive mergers with an effect on the world market should be covered by new rules under the General Agreement on Tariffs and Trade (Gatt).

"Just as a single member state may not always be able to deal effectively with competition-distorting practices, the Community itself is sometimes too small to do so," he said.

EC leaders head for 'the bunker'

By Patrick Blum in Lisbon

AT LAST, the Centro Cultural de Belém, known as CCB or less charitably as "the bunker", has found its true vocation as the building hosting the Lisbon summit.

Squatting on the banks of the Tagus river on the outskirts of Lisbon, the conference centre was built at a cost of about $222m as the showpiece of Portugal's six-month EC presidency. The sprawling set of low, pinkish buildings contrasts starkly with the elegant Jerónimos monastery across the road.

But striking a blow for elegance was not the objective of the CCB.

Security considerations ensured there would be few windows on the sunnier south-facing riverside: terrorists would find it hard to take a pot shot while bobbing up and down on the river. But the Portuguese authorities are not taking any chances. Naval boats patrol the river and heavily armed police, including special anti-terrorist units, are part of a 2,000-strong security task force put together to ensure nothing spoils the occasion.

It is an easier task for the police than the nightmare of ensuring the safety of more than 70 ministers during a meeting in May to discuss aid to the former Soviet Union. Only President François Mitterrand of France enjoys the outstanding view to the river, with a corner office that also overlooks the gardens at the front of the building.

"It's the best room, but that's only because he's head of state – the others are just prime ministers, but they've all got nice views over the gardens," said one official.

Whether by chance or choice, the office of Mr Aníbal Cavaco Silva, the Portuguese prime minister, looks onto the 16th century monastery, enabling him to reflect on the passage of time and on how quickly Portugal's moment in the sun at the helm of the EC presidency has gone by.

In central Lisbon, traffic has become even more chaotic than usual, as streets have been barred to traffic near the two hotels where delegations stay, except for Mr Mitterrand who is breaking ranks by staying at the French ambassador's residence.

The Lisbon summit may not be as dramatic as that of Maastricht, but Portuguese enthusiasm ensures a party atmosphere. The only cloud arises from customs workers, who have been striking against dismantling of EC borders and the prospect of losing their jobs.

SUMMIT AGENDA

TODAY:

0830 gmt European Parliament President Egon Klepsch meets EC leaders
0900 Summit opens. Delors II budget package
1230 Lunch at Ajuda Palace given by Portuguese President Mario Soares
1430 Strategy for enlargement of Community, relations with central and eastern Europe, report by EC Commission President Jacques Delors on subsidiarity, progress report on single market.
1930 Portuguese Prime Minister Aníbal Cavaco Silva hosts dinner at Queluz Palace for EC leaders to discuss situation in Yugoslavia, re-appointment of Delors, sites of new EC institutions, and possibly state of GATT talks.
Foreign ministers hold separate dinner to discuss future common foreign and security policy, Middle East, relations with Maghreb, and July summit of the Conference on Security and Cooperation in Europe.

TOMORROW:

0815 Negotiations on summit communiqué.
1200 Working lunch. No fixed close for talks.

Maternity pay plan in doubt

By Diane Summers, Labour Staff

PROPOSALS to give women throughout the European Community a minimum standard of paid maternity leave face an uncertain future following the Council of Ministers meeting in Luxembourg on Wednesday.

The European parliament had previously voted in favour of women having at least 14 weeks' maternity leave on 80 per cent of their pay – a measure also backed by the European Commission.

However, some countries within the Council of Ministers, including the UK, argued the level was too high and a compromise was reached at the end of last year giving a level of pay equivalent to each country's sick pay provision.

Italy decided on Wednesday that this position was unacceptable and wants, instead, to adopt the higher payments put forward by the European parliament.

Dutch MPs pass treaty

By Ronald van de Krol in Amsterdam

THE lower house of the Dutch parliament yesterday voted to ratify the Schengen treaty on eliminating border controls in the heart of the European Community.

The treaty removes border controls between eight of the 12 EC states.

To take effect, all five original signatories – France, Germany, Belgium, Luxembourg and the Netherlands – must ratify it.

The Dutch vote of 123 in favour and 23 against the treaty in the 150-seat lower chamber brings to an end a prolonged and sometimes hotly engaged debate on its future.

The Financial Times (Europe) Ltd
Published by The Financial Times (Europe) GmbH, Frankfurt Branch, Nibelungenplatz 3, 6000 Frankfurt-am-Main 1: Telephone 49 69 156850; Fax 49 69 5964481; Telex 416193. Represented by E. Hugo, Managing Director. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenburg 4. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1992.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

Kohl: refused to give blessing to the deal agreed by states

German states announce compromise on Maastricht

By Quentin Peel in Bonn

LEADERS of Germany's 16 federal states yesterday claimed to have broken the deadlock in their negotiations with the government over ratification of the Maastricht treaty on European union.

A compromise agreed with constitutional experts from the main political parties would provide the states with a significant increase in their power to control any future transfer of sovereignty to Brussels.

However, Chancellor Helmut Kohl last night refused to give the deal his final blessing, pending close analysis by the government's own legal advisers. He is also conscious of deep anxiety amongst his own foreign policy advisers, and in the German Foreign Ministry, that the agreement could severely limit the government's room for manoeuvre in future EC negotiations.

Key to the agreement is a new clause in the German constitution, to replace the existing clause on German reunification, made redundant by the events of the past two years.

The text worked out by the constitutional experts, and due to be presented to the full constitutional committee of the two houses of parliament today, includes a formal commitment to the goal of European union. That is defined as based on democracy, the rule of law, and the social and federal principles underlying the German constitution – as well as the principle of subsidiarity.

The Bundesrat – the upper house of the German parliament in which the 16 states are directly represented – will in future have an effective veto on any further transfer of sovereignty which is not seen in Germany as matching those preconditions. That would almost certainly mean an insistence that any future EC reforms must include very substantial strengthening in the powers of the European parliament, in order to ensure democratic control.

The key point still at issue between the German government and the states is the question of involvement in on-going EC decision-making. They agree that the states can in future nominate an alternative representative in EC negotiations for matters which are their exclusive responsibility. A new form of words requires the government "to take substantial account of the opinion of the Bundesrat" if EC negotiations affect the interests of the states. That suggests that not only exclusive interests of the states would be involved, but also for example EC budget negotiations, which affect them indirectly.

The interests of the central government are supposed to be protected by the proviso that its responsibility as sole representative of the entire country must still be preserved.

Mr Hans Eichel, the prime minister of Hesse, said last night that the compromise represented the furthest the states were prepared to move in restricting their involvement in EC negotiations.

Mr Max Streibl, the conservative prime minister of Bavaria, went further in warning that if the government did not agree, the issue was one on which he was prepared to vote against ratification of the Maastricht treaty.

However, Mr Friedrich Bohl, the minister of state in Mr Kohl's office, said that the government could not agree until the entire text had been exhaustively investigated by constitutional advisers.

Serbs agree to halt shelling of Sarajevo civilians

By Laura Silber in Belgrade

SERB FORCES besieging Sarajevo yesterday announced they would halt the bombardment of civilian targets in the Bosnian capital as they launched an offensive in other parts of the republic.

General Lewis MacKenzie, the commander of United Nations forces in Sarajevo, said Mr Radovan Karadzic, a Serb leader from Bosnia, had agreed to relocate heavy artillery guns to allow UN forces to resume work on opening the airport for relief flights.

As Radio Sarajevo reported continuing attacks on parts of the city, diplomats based in Belgrade were sceptical that the agreement would hold. However, one diplomat said it might "indicate that the Serbs have decided to put the train on a different track, to lock in territorial gains by exchanging land for peace". But Gen MacKenzie, reached by telephone in Sarajevo, warned: "If the initiative failed because of Serb actions it would have a serious impact on their credibility."

He declined to comment on how far the artillery, which has destroyed much of Sarajevo, would be moved from the beleaguered capital. He said two separate UN teams, which have no contact with each other, were working with the mainly Moslem Bosnian forces and the Serb forces on plans to relocate the weaponry. Serb leaders yesterday did not elaborate on what constituted a civilian target.

Gen Mackenzie said the agreement could pave the way for reopening the airport for emergency aid to relieve some 300,000 people trapped in Sarajevo with little food and chronic shortages of water and electricity.

Meanwhile, Mr Haris Silajdzic, the Bosnian foreign minister, said yesterday that he was less optimistic about peace in his country following a meeting between the European Community mediator, Lord Carrington, and Yugoslav leaders, Reuter reports from Strasbourg. Mr Silajdzic told reporters his hopes had lessened because President Slobodan Milosevic of Serbia had turned down Lord Carrington's proposal that Belgrade should recognise Bosnia-Hercegovina, which declared independence earlier this year.

"I understand that a certain proposal was put to Mr Milosevic to recognise Bosnia-Hercegovina, which he refused. I frankly see no progress," he said.

Lord Carrington held separate talks with Mr Milosevic, Croatia's President Franjo Tudjman and Mr Silajdzic in an attempt to stop the siege of Sarajevo by Serb irregulars and bring aid to the starving population.

In Strasbourg, Mr Milosevic said he had been pressed by Lord Carrington to recognise Bosnia, but had replied that this was a matter for the new Yugoslav federation consisting of Serbia and Montenegro to decide.

"It boils down to one question," Mr Silajdzic said. "Is Europe and the world prepared to watch this carnage go on?"

Judy Dempsey adds from Belgrade: The Serbian authorities have asked the UN to unfreeze some of the republic's assets held abroad in order to meet debt repayments which fall due this year, according to bank officials in Belgrade.

These reserves, which total $2bn, include the federal reserves, which amount to $1.5bn, and commercial bank reserves, which total $500m. A small, undisclosed sum is held in Belgrade.

Mr Gavrilo Dedovic, head of the international division of the National Bank of Yugoslavia, said the federal authorities of the rump Yugoslavia had written to the UN sanctions committee, asking it to recommend the Security Council to release its hard currency reserves held in banks outside the country. They have received no reply.

"We want to honour all our debt repayments this year," Mr Dedovic said. "We do not want to renege on any of these commitments."

Drug money launderers find new routes

By Ian Rodger in Lugano

THE volume of laundered drug money, estimated at $85bn (£46bn) in the US and Europe four years ago, has remained high in spite of the efforts of a task force set up to combat it by the leading industrialised nations at their 1989 economic summit.

"I cannot imagine that the figure has dropped since we started," Mr Alexis Lautenberg, a Swiss foreign ministry official, said yesterday. Mr Lautenberg, who has chaired the task force in the past year, said that even though many countries, including Switzerland, had introduced measures to prevent drug money laundering, the activity had merely shifted "geographically and institutionally".

Money launderers were moving to eastern European and far eastern countries and using unregulated institutions and more circuitous paths.

The report also revealed that many of the 27 governments participating in the task force had not yet implemented many of its recommendations, especially those requiring legal action. Only 10 have ratified the 1988 Vienna Convention criminalising drug money laundering.

Progress will be accelerated next year when member countries of the European Community and European Economic Area will have to comply with the EC money laundering directive. It will oblige all financial institutions to know the identity of their customers, to keep full records and to report any suspicious transactions to the authorities.

Abortion revolt divides German ruling party

By Quentin Peel in Bonn

MRS Rita Süssmuth, the president of the German Bundestag, yesterday led a revolt of liberal Christian Democrats against Chancellor Helmut Kohl's ruling party in an emotional debate over the relaxation of Germany's strict anti-abortion laws.

In spite of bitter criticism from other members of Germany's ruling coalition, and a demand for her resignation from Mr Theo Waigel, leader of the overwhelmingly Roman Catholic and conservative Christian Social Union (CSU), Mrs Süssmuth delivered a passionate plea for the rights of German women to decide the question for themselves.

Her support for a liberal amendment tabled by the opposition Social Democrats (SPD) and the Free Democrats, minority partners in the government, was the key moment in a day-long debate in the Bundestag, marking the culmination of two years of agonising over the divisive abortion issue.

At stake is the law in the united Germany, which has to reconcile the situation of virtual abortion-on-demand practised in the former East Germany, and the much more restrictive West German regulation.

Backed by the full might of Germany's Roman Catholic bishops, who condemned the amendment as a "licence to kill", a clear majority of the Christian Democrats (CDU) and CSU argued for the "protection of the unborn child" – leaving abortion as a crime unless approved by a doctor. Their proposal would require precise justification of any abortion on physiological or psychological grounds.

The alternative would simply require doctors to give formal advice on the consequences of abortion to any prospective mother seeking to terminate her pregnancy.

"Nobody can save the life of a child against the mother's will," Mrs Süssmuth declared, to a storm of applause from the opposition benches. "We must think of both the protection of the unborn life, and of the mother... We must stop saying that women are incapable of taking their own decisions. No one can take away from the woman herself the final decision."

More than 100 speakers in the parliament were billed to take part in the debate, which was broadcast live on television throughout the day. A narrow majority in favour of the compromise amendment from the SPD and FDP was expected, thanks to the defection of Mrs Süssmuth and up to 30 Christian Democrats, many of them from the former East Germany.

Although the vote was declared a free vote by the main political parties, the split in the Christian Democrats is another embarrassment for Chancellor Helmut Kohl, at a time of shaky popularity for his coalition government.

The Black Sea eleven: Regional leaders pose in Istanbul yesterday after their economic co-operation summit: (from left) Moldova's Mircea Snegur, Ukraine's Leonid Kravchuk, Georgia's Edouard Shevardnadze, Armenia's Lev Ter-Petrossian, Russia's Boris Yeltsin, Romania's Ion Iliescu, Turkey's Suleyman Demirel, Bulgaria's Zhelyu Zhelev, Albania's Sali Berisha, Greece's Constantine Mitsotakis and Azerbaijan's Abulfaz Elchibey

BLACK SEA AREA LEADERS SIGN ECONOMIC AGREEMENT

TURKEY and eight former communist states of the Black Sea region joined Greece and Albania in Istanbul yesterday to sign a framework economic agreement in an attempt to revive trade relations stalled since the collapse of the Soviet Union, John Murray Brown reports from Istanbul. A call was made for "effective mechanisms to achieve a higher degree of economic co-operation" in areas such as transport, telecommunications, infrastructure and environment. The summit grouped Turkey, six former Soviet republics (Russia, Ukraine, Georgia, Moldova, Azerbaijan, Armenia) and Romania, Bulgaria, Greece and Albania. A Turkish official said the 11 countries would "probably" establish a bank on the lines of the European Development Bank or the World Bank. However, the joint declaration fell short of practical proposals.

Member countries seemed just as intent to emphasise the need for political solutions to the region's ethnic problems. Georgia's president, Mr Eduard Shevardnadze, warned that the Black Sea project could prove "stillborn" unless the region's security were guaranteed.

The idea of Black Sea co-operation was conceived by Turkey's President Turgut Ozal, partly in response to his country's unsuccessful attempt to win EC membership. Turkey's view of the Black Sea has expanded to incorporate the region between the Balkans and the Caucasus to accommodate Greece and Albania. President Ozal was a notable absentee yesterday, following disagreement with his prime minister, Mr Suleyman Demirel, on who should sign the agreement.

Ossetians attack Russian 'sell-out'

SOUTH Ossetian officials yesterday roundly condemned a deal between Russia and Georgia aimed at ending three years of ethnic conflict in the rebel region, Reuter reports from Moscow.

"This is an attempt by Russia to sell us out to Georgia," said South Ossetia's visiting foreign minister, Mr Urizmag Dzhioyev. The conflict has caused the deaths of hundreds of people.

He was speaking outside the Russian parliament a day after a meeting of Russian, Georgian and Ossetian leaders.

Anglo signs breakthrough labour code

By Philip Gawith in Johannesburg

ANGLO AMERICAN Corporation, South Africa's largest company, has signed a ground-breaking labour relations agreement with the National Union of Mineworkers (NUM).

The code of conduct accord is one of the most significant developments in South African labour relations since the legalisation of black trade unions in 1979. The code, the first of its kind in the industry, is aimed at eliminating violence in the mines and the violation of a wide range of labour and civil rights. It applies to all the gold and coal mines managed by Anglo.

At a signing ceremony this week, Mr Marcel Golding, assistant general secretary of the NUM, which has more than 300,000 members, said the agreements were of "major historical significance". The code, and the accompanying agreement on dismissal and disputes procedures, arose out of the bitter 1987 miners' strike and took four years to negotiate.

Relations at the mines between unions and management, and between workers themselves, have often been fraught and violent. In November last year, 86 people died at Anglo's President Steyn gold mine near Welkom in clashes during a national stayaway to protest against VAT.

The code seeks to balance the rights and responsibilities of managers, union leaders and union members in a way which acknowledges fundamental liberties and avoids violence and intimidation.

Important labour rights are recognised, such as the right to freedom of association, peaceful picketing and full disclosure of relevant information and there is a commitment to job and skills development to correct past imbalances. Sensitive matters such as wearing political insignia and singing and dancing at mass meetings are also dealt with.

These rights are balanced by limitations which essentially protect the right of management to manage, and individual workers to dissent from union activities without fear of violence.

Mr Bobby Godsell, the industrial relations director at Anglo, said that at a time when national political negotiations were deadlocked it was instructive that two parties deeply divided, with a history of violent conflict and vastly different ideological beliefs, had negotiated such an important agreement.

New Kabul strife looms

AFGHANISTAN appears set for a new power struggle with signs of renewed tension between the country's interim President, Mr Sibghatollah Mojaddedi, and his rival mujahideen leaders, writes Farhan Bokhari in Islamabad.

Mr Mojaddedi is due to step down on Sunday under a two-month-old agreement between mujahideen factions, and hand over power to another interim government which would hold elections. However, he has made clear he wants to stay on. "I am not interested [in staying in power]. But I cannot ignore the people's will and expectations," he said this week addressing supporters in Kabul who asked him to stay in office.

Said one supporter: "We will wage jihad [holy war] against anyone who opposes him. We have enough power."

The president's statement came only a day after an official spokesman announced in Kabul that he would not step down on Sunday.

Turks to debate air cover for Kurds

By John Murray Brown in Ankara

THE Turkish parliament is today to debate whether to renew the allied air umbrella which has been vital for the security of the Iraqi Kurds.

The count is expected to be close, despite calls to extend air cover from Mr Suleyman Demirel, the coalition prime minister, and a recommendation from the National Security Council on Tuesday. Under the present agreement, US, French and British fighter aircraft based at a Turkish-US base 310 miles from the Iraqi border police the skies over northern Iraq to protect Kurds from Iraqi military attack.

Together with the Kurdish Pesh Mergas guerrillas, the allied air threat has been the main deterrent to President Saddam Hussein since western forces left northern Iraq last July. Their departure followed a relief operation to establish safe havens for the Kurds after the Gulf war.

The allied presence is credited with preventing a repeat of last year's refugee exodus, which is still Ankara's main concern and persuaded Turkey to back allied moves to set up the "safe haven".

Turkish nationalists on both the conservative and left wings remain opposed to the presence of any foreign troops on Turkish soil. The Social Democratic Populists (SHP), now the junior coalition partners, spoke against theaccord when it was introduced during the former Motherland party government. "We didn't ask them to come here," said Mr Erdal Inonu, the deputy prime minister and SHP leader. "Nevertheless we will be responsible for the consequences."

When the protocol was rolled over last December, Mr Demirel said it would be for the last time. The prime minister also promised any decision would depend on parliament's sanction, whereas previously the government used special powers granted during the Gulf crisis.

Rabin firm over violence in Gaza and West Bank

By Hugh Carnegy in Jerusalem

FIVE people – three Arabs and two Israelis – were killed in the West Bank and Gaza Strip yesterday, delivering a sharp reminder of the simmering violence in the occupied territories two days after the Labour party won a general election with the promise to speed Middle East peace talks.

Mr Yitzhak Rabin, the Labour leader who is preparing to build a coalition which he will head as prime minister, told a meeting of Labour's executive committee he would deal with those who "murder and incite" with force.

"Anyone who thinks a government headed by us will not deal with terror in all its forms is making a bad mistake," he said, referring to the deaths of the two Israelis.

His comments echoed the tough stance he adopted against the Palestinian uprising, or intifada, as defence minister in the late-1980s.

The two Israelis were vegetable merchants who were stabbed in the Gaza Strip where they had apparently gone to do business. An Israeli livestock dealer was shot dead in Gaza in similar circumstances last month.

Meanwhile, three armed Palestinians were shot dead in the West Bank by Israeli undercover soldiers.

Mr Rabin has offered territorial concessions to the Palestinians, saying the intifada can only be ended by political means. But he has pledged to enforce stringent security measures meanwhile, to clamp down on violence.

Yesterday he was pressed by Meretz, the pro-peace minority party which is set to be Labour's main coalition partner, to speed the process of forming a government.

Meretz leaders expressed irritation that Mr Rabin, who is anxious to minimise right-wing opposition to his peace policies, was seeking to broaden the coalition by including at least one religious party.

He is also waiting for the final official election results to be published.

Inclusion of the army vote could produce a marginal adjustment of the distribution of seats which Mr Rabin wants to take into account before starting coalition negotiations.

A thumbs-up from Labour leader Yitzhak Rabin as he opens his party's first executive committee meeting since the election

UN bomb team heads for Baghdad

UN experts travel to Baghdad today to begin overseeing the destruction of machinery Iraq used to produce its arsenal of chemical bombs, officials said, Reuter reports from Manama.

A 16-member team would supervise the scrapping of 60 pieces of equipment used to make chemical bomb casings. The team would also inspect undeclared sites during their eight-day mission to search for hidden equipment. UN inspectors charged with ridding Iraq of its weapons of mass destruction have already destroyed about 8,000 unfilled chemical munitions and blown up leaking rockets containing 2.5 tonnes of nerve agents.

Guangdong sets sights high

By Simon Holberton in Hong Kong

GUANGDONG, the fastest growing province in China, plans to expand at a real rate of nearly 13 per cent a year for the next 20 years in its drive to catch up with Asia's other high-growth economies, Zhu Senlin, its governor, said.

Zhu's prediction, which was made in Beijing on Wednesday, follows a reassessment of the province's growth potential occasioned by the visit at the beginning of the year of Deng Xiaoping, China's 87-year-old leader.

Deng encouraged provincial authorities to be more bold and strive to reach the level of development of Asia's four "dragons" – Hong Kong, South Korea, Taiwan and Singapore. Soon afterwards officials began to redraw plans for economic development.

This year Guangdong's economic performance has been impressive. In the first five months of this year industrial production has risen by 26 per cent compared with the same period last year.

Trade is also growing strongly. In the first three months of this year the value of exports was 35.3 per cent higher than in the January-March period last year. The province produced a trade surplus of $1.67bn in the period – 13.4 per cent higher than in the first quarter of 1991.

But there are also signs the economy might be over-heating. Retail sales in the first five months were 17.7 per cent higher than for the same period last year. Property prices are rising strongly. Within the past year they have increased more than 30 per cent.

Economists in Hong Kong said Zhu's prediction for the overall growth rate was reminiscent of the language of the central planner.

But Mr Enzio von Pfiel, economist at Smith New Court, a British brokerage, said: "I could well see Guangdong growing annually in the range of 10 per cent to 13 per cent over the coming years."

Between 1984 and 1991, Guangdong posted an annual growth in GDP of 13.9 per cent. Industrial production grew at an annual rate of 23.8 per cent.

Donors press India on reforms

By David Housego in Paris

WESTERN donor nations yesterday expressed support for India's economic reform programme but warned that the momentum of change should be maintained.

At the annual gathering in Paris of the India Aid Consortium, Germany pressed for more radical and rapid privatisation of Indian state-owned enterprises declaring that there was "no alternative for getting more efficiency". Germany, backing recommendations by the World Bank, said that in the financial sector "painful reforms" were needed and should be taken soon.

Mr Montek Ahluwalia, the Indian secretary for economic affairs, told the two-day meeting, which is being held under the chairmanship of the World Bank, that the Bombay financial scandal would be used by the government to accelerate financial sector reform.

He said the government would establish mechanisms to tighten supervision of the banking system and to ensure the banks maintained greater internal controls.

India told donor nations that it planned to open negotiations next month for an Extended Fund Facility (EFF) borrowing from the IMF – though there is some doubt whether India will get access to the Fund's lowest-cost money.

The World Bank warned the meeting of the continuing fragility of India's balance of payments. In a reference to the threat of a bad monsoon that hangs over the economy this year, the World Bank said that the foreign exchange reserves – now at more than $5bn, or equivalent to three months' imports – were "insufficient to withstand shocks such as adverse external developments or droughts to which India is extremely vulnerable".

The Bank said that, because of stagnant domestic oil production, oil imports were likely to increase by 60 per cent in nominal terms over the next five years.

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Unemployment forecast to remain high ● No fall likely in European interest rates

Industrial world set for slow growth

By Peter Marsh, Economics Staff

HIGH European interest rates and weak demand in the US and Japan will constrain economic growth across the industrialised world this year, according to the Organisation for Economic Co-operation and Development.

In its latest Economic Outlook, published yesterday, the Paris-based body says non-residential investment in the OECD area will be flat this year compared with 1991, while unemployment will stay high.

The group, which represents 24 leading industrial nations, says OECD-wide company profits will probably expand "more modestly" over the next few years, compared with the faster pick-up after the previous period of slow world growth in the early 1980s.

Helped by a sluggish recovery in the US and weak inflation in many nations, "growth [in the OECD] should gradually accelerate in the coming months", but at a slower rate than that expected by the organisation in its last Economic Outlook published last December.

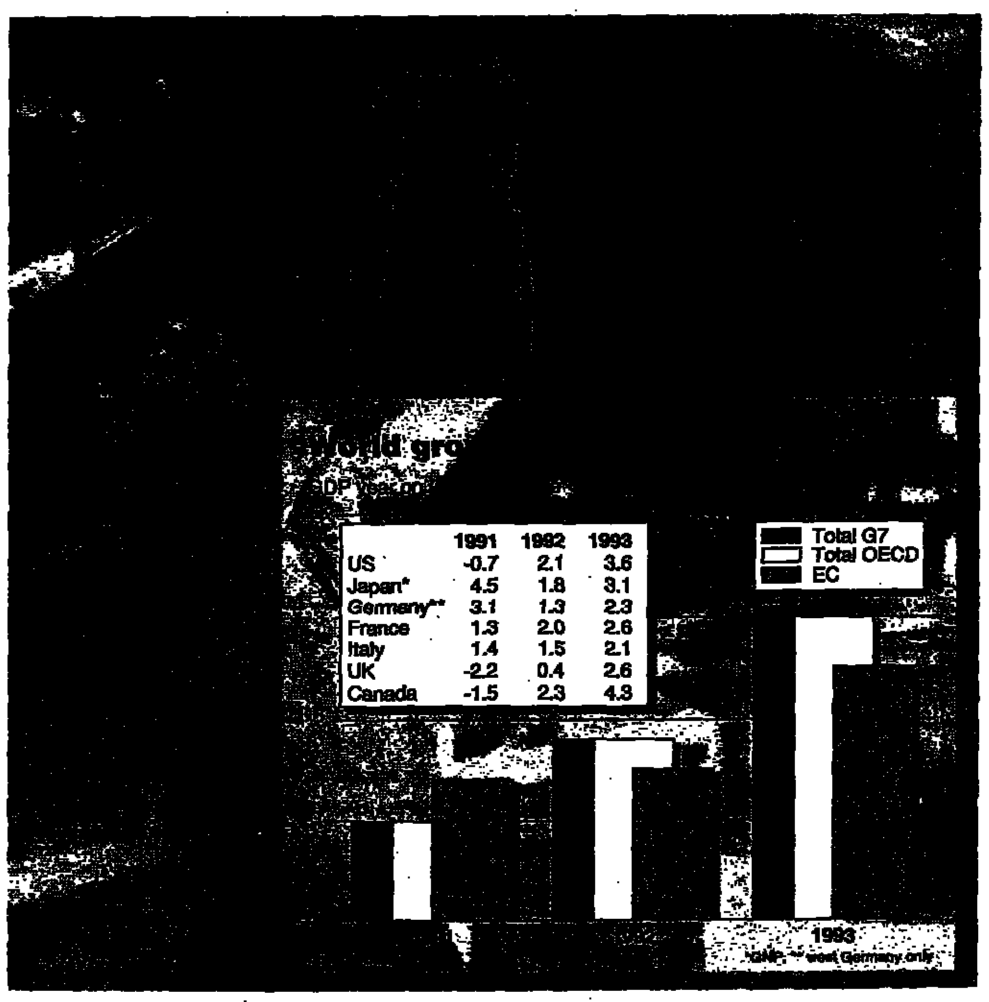
With short-term interest rates across Europe influenced by the tight monetary policy of the Bundesbank, "there is little prospect that current high real rates of interest [in Europe] will come down". That could be "burdensome" for those European countries – which include Britain, France and Italy – where activity is weak and inflation low.

While many European nations are hemmed in on borrowing rates, constraints on European fiscal policies linked to the Maastricht agreement reduce the opportunity to promote growth through increases in public spending or tax cuts.

In the US, the poor state of government finances which allows little room for tax cuts, together with weak construction activity, will lead to demand staying "relatively weak" in the near term, the OECD says.

Meanwhile, in Japan, "extremely slow money growth and the persisting weakness of asset prices could delay the pick-up in activity".

According to the report, the OECD economy should expand by 1.8 per cent this year after 1 per cent in 1991. Last December, the organisation's economists projected 1992 growth of 2.2 per cent.



Even though for the OECD as a whole "recession has been avoided" over the past year, growth is likely to be held back by the high debts built up during the 1980s.

Spending by many consumers and businesses has been curtailed by their desire "to strengthen their financial situation further before increasing their expenditure, while financial institutions and banks may have become more cautious in their lending".

The OECD is relatively bullish about prospects for next year, when it expects growth across the region to reach 3 per cent. But several worries remain:

● Further reductions in inflation are necessary in many countries, especially in Germany. That could imply tight monetary policies "that could restrain demand in the short term".

● The efforts to bring down debts rather than to increase spending "may have further to go". By reducing sales of goods and services and further damping investment, this could hold back economic activity for some time.

● Businesses and households remain cautious in many nations – partly because of fears about unemployment and the general economic outlook.

● Uncertainties about the outcome of the Uruguay Round of world trade talks, may be further holding back growth.

● There is a danger that, should Japan's trade surplus continue to grow, some nations could restrict Japanese imports so "hampering free international trade and hence economic performance".

The report reckons that the position of the OECD's estimated 30m unemployed people (7.5 per cent of the workforce) "is likely to improve only very slowly". Even though the rate for the whole of the OECD may fall next year, for Europe the unemployment rate is expected to rise slightly in 1993 to 9.5 per cent.

Partly due to the large numbers of people out of work, pressure on wage rates is likely to be modest, which could be one factor aiding growth. Another is the generally favourable outlook for world trade, which is expected to "expand briskly" over the next 18 months, at annual rates of up to 7 per cent.

Much of this is related, the report says, to strong demand in the former communist nations in eastern Europe and in east Asia. In particular, "producers in both Japan and west Germany may seek to divert output to foreign markets as domestic demand picks up only slowly".

In other highlights, the OECD says:

● OECD governments are likely to push up borrowing as a percentage ot total output to 3.25 per cent this year, more than 0.75 percentage points higher than last year. Most governments were unable to meet targets for debt reduction last year, largely because of pressures on spending and weak revenues related to the world economic slowdown.

● Cash savings in the OECD resulting from reduced spending on defence after the demise of Soviet communism will be "modest in macroeconomic terms". Even though defence spending as a proportion of output is expected to decline over the next five years in many OECD nations, the reductions are expected to be significant only in the US and Germany, with smaller cuts in France, Britain and the Netherlands. "The net impact on aggregate demand and employment....is likely to be small, although the geographic concentration of defence procurement industries may lead to severe local labour-market problems in some cases."

● More efficient pricing mechanisms for air, land and water would increase incentives to conserve such such resources and help safeguard the environment. "There is increasing recognition that greater reliance on economic instruments – such as charges, taxes and tradeable permits – can lead to environmental problems being solved at lower costs," the report says.

● Output by the newly industrialising nations of eastern Asia is likely to increase this year by about 7 per cent for the fourth year running. The OECD also expects inflation in these countries – South Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia – to fall back after rising last year.

● A collapse of trade among the newly independent republics of the former Soviet Union is a "serious risk", putting a question mark over economic prospects for the region.

OECD Economic Outlook No. 51. From OECD Publications Service, 2 rue André-Pascal, 75775 Paris Cedex 16, France, or HMSO. Price £13.50, $24, DM43, FFr110.

Maastricht sets stiff test for EC states

By Peter Marsh, Economics Staff

ONLY three EC nations can meet the Maastricht targets on fiscal policies without heavy curbs on government spending, says the OECD.

For Italy, Greece, Belgium and the Netherlands meeting the limits would require cuts in spending over the next seven years.

The OECD study highlights the difficulties faced by many countries in achieving the targets to reduce state borrowing before economic and monetary union around 2000.

The problems are worsened by high interest rates and the economic slowdown, which has pushed up government borrowing for many countries.

Only France and Luxembourg meet both targets for general government net borrowing and gross government debt. According to the guidelines, these should by 1999 be no more than 3 per cent and 60 per cent respectively of gross domestic product.

Four nations would have to cut spending (assuming unchanged tax rates) to meet one or both of the limits. Of these, Belgium and Greece face measures that "would probably be too severe to envisage". They would have to cut spending by 6.6 per cent and 6.1 per cent a year respectively up to 1998, while Italy's spending would need to be trimmed by 7.7 per cent a year. The Netherlands would have to reduce spending by 0.3 per cent a year.

For the other eight EC nations, five would have to take tough, if more moderate, action to achieve the targets. These nations would have to keep increases in spending during the next seven years below the levels envisaged for 1990-92 or below the levels experienced during the 1980s.

Just three countries – France, Britain and Luxembourg – would experience little difficulty in meeting the targets.

This is because they already meet the limits, or because the permitted spending increases during the 1990s are smaller than, or the same as, those applying during the 1980s or projected for 1990-92.

Scant sign of real recovery in UK

By Peter Marsh

"FEW signs of a sustained pick-up" are evident in Britain, the OECD warned yesterday.

It said Britain's economy would grow much more slowly this year than envisaged six months ago and at less than a third of the rate projected for other Group of Seven industrial nations. The expected recovery later this year would be constrained by high unemployment, the weak housing market and large debts.

The bleak message underlined how – even though Britain is not alone in the G7 in experiencing economic slowdown – its difficulties are particularly acute. It came two weeks before the G7 (the US, Japan, Germany, France, Britain, Italy, and Canada) meets in Munich to discuss the world economy. The OECD's estimate that UK output will expand this year by 0.4 per cent contrasts with its 2.2 per cent projection last December.

It is also substantially lower than forecasts for the other G7 members. Of these, the next most laggardly in 1992 is expected to be Germany, which, according to OECD predictions covering only the western part of the country, will see growth of 1.3 per cent. The OECD puts overall G7 growth this year at 1.8 per cent.

The UK Treasury said the OECD's estimate was "not endorsed" by Britain. But in an internal exercise, the Treasury is almost certainly revising downwards its last published forecast of 1 per cent, made in the March budget.

The OECD thinks a hesitant UK recovery is probably starting about now, after the recession touched bottom in the first quarter. But an increase in business investment, which has fallen sharply during the longest economic decline since the 1940s, is unlikely before late in the year.

Company profitability (as measured by the rate of return on capital) is likely to be 9.9 per cent this year against 15.3 per cent for the whole of the G7. Next year, the figures are expected to be 10.8 per cent and 15.7 per cent respectively.

As for 1993, the OECD thinks UK output will expand by 2.6 per cent, compared with 3.1 per cent for the G7.

But amid the gloom, the OECD sees some hopeful signs:

● Private-sector wage settlements have dropped rapidly, enhancing international competitiveness. Given projected good growth in world trade, that should give UK exports "an element of strength".

● Underlying inflation as measured by growth in the statistical deflators for personal consumption could be as low as 3 per cent in 1993, "creating the conditions for a recovery in business investment".

● Removal of political uncertainty after the April general election has "significantly increased" the probability of economic recovery by boosting business and consumer confidence.

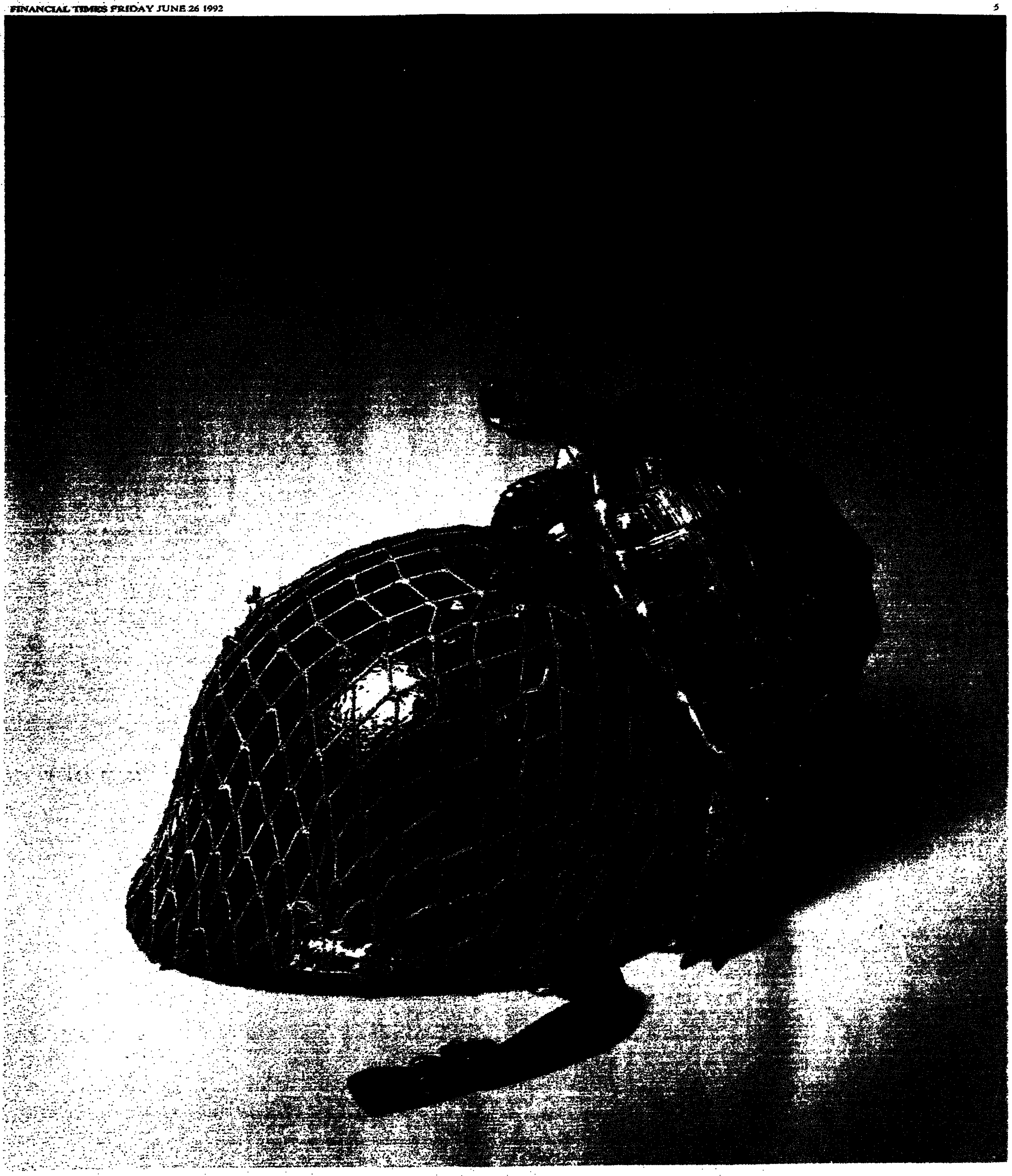
● Higher public spending, at least partly caused by the recession, should boost economic activity generally.

Over the longer term, the report says a critical issue is whether government policies in areas such as training "have boosted UK competitiveness sufficiently to realise a better medium-term growth, employment and inflation performance".

BRITAIN'S ECONOMY

	1991	1992	1993
Gross domestic product	-2.2	0.4	2.6
Domestic demand	-3.1	0.9	3.1
Private consumption	-1.7	0.8	2.8
Industrial production	-4.4	1.2	2.7
Gross fixed investment	-10.3	-1.0	3.7
Consumer prices§	7.4	5.8	3.8
Exports*	0.7	3.4	4.8
Imports*	-2.9	4.7	6.0
General government deficit+	1.7	4.8	5.2
Unemployment rate (per cent)	8.3	9.8	9.7
Savings ratio (per cent)	9.4	8.9	7.9
Current account deficit ($bn)	7.8	15.0	19.0

Note: All figures relate to year on year percentage changes, unless stated. *goods and services; §national accounts implicit private consumption deflator; + as per cent of GDP. Source: OECD



High growth in first quarter lifts few spirits

By Michael Prowse in Washington

THE US Commerce Department yesterday revised up its estimate of economic growth in the first quarter to an annual rate of 2.7 per cent, the best performance since President George Bush took office early in 1989.

However, the revision failed to lift the spirits of many forecasters who are worried by more recent evidence that growth is again flagging.

Mr Michael Boskin, the chief White House economist, yesterday warned that the risk of "sluggish growth" was greater than that of a resurgence of inflation. He also expressed concern about the slow growth of the money supply.

His remarks added to the pressure on the Federal Reserve to ease monetary policy, following Mr Bush's direct call this week for lower interest rates.

Separate reports yesterday of a sharp rise in claims for unemployment insurance and a decline in sales of previously-owned homes gave further evidence of sluggish conditions.

Unemployment claims rose by 16,000 to 422,000 in the week ending June 13. Sales of existing homes fell 1.7 per cent in May to register their second consecutive monthly decline.

The third and final estimate of growth in the first quarter contrasted favourably with previous estimates of 2 per cent and 2.4 per cent. The improvement reflected upward revisions to investment and net exports.

This was the fourth consecutive quarter of sluggish growth after a faltering economic recovery in the spring of last year. GDP expanded at an annual rate of 0.4 per cent in the final quarter of last year.

Many analysts fear that the 2.7 per annual growth rate recorded in the first quarter will not be sustained in the current quarter, mainly because of a deceleration in consumer spending.

RAIL operators in the US responded yesterday to the machinists' union strike by shutting down freight operations across the country, essentially halting shipments, Karen Zagor reports from New York. The strike against CSX Transportation, one of the big US freight lines, was in its second day.

The picture above shows idled Conrail locomotives at a yard in Conway, Pennsylvania.

Democrats in the House of Representatives are proposing an immediate 30-day cooling-off period, with an arbitrator imposing a settlement at the end of it if the parties are unable to reach agreement. Congressional Democrats have rejected a White House demand to impose a settlement without arbitration.

Talks between other US rail unions and operators to establish new labour contracts continued yesterday morning but there were no signs of an immediate settlement.

Midland may buy Peru bank

MIDLAND Bank of the UK is considering buying a loss-making state-owned bank in Peru, writes Sally Bowen in Lima.

The bank's senior Latin American executive, Mr Marcos Bruijs, arrived in Lima this week for negotiations with government officials over the purchase of Banco Popular.

This, one of the oldest and most extensive of Peru's banking networks, has deep financial troubles. Its bad-loans portfolio is about the equivalent of $55m and securitised debts to foreign banks $76m.

Midland would commit itself to bring in credit lines for $10m-$14m, and to guarantee another $10m or so in credit from a multilateral financial institution such as the Andean Development Corporation.

The purchase would be made largely through an exchange of short-term debt for equity in the bank. Midland still holds some $24m in Peruvian short-term debt.

Midland is expected to insist that the Peruvian government assume Banco Popular's bad-loans portfolio.

An urge to privatise

Sally Bowen assesses the Peruvian economy

AS the Peruvian economy sinks further into fiscal deficit and balance of payments crisis, the political will to privatise seems at last to have hardened. The government has given its blessing to debt-equity swaps in what now promises to be a speedy programme of state sell-offs.

"With debt paper, we increase demand and speed up the whole process," says Mr Carlos Montoya, a privatisation specialist with Latin American experience and executive director of Copri, the government's streamlined commission for promotion of private investment.

Copri's pledge to complete an average of one sell-off a week means, according to Mr Montoya, that by August or September 1994 the state will no longer own any of the businesses which Copri chief Jaime Yoshiyama claims costs the state $10m a day.

Some 55 public sector companies already have committees working on technical assessment, legal intricacies and identification of the most desirable privatisation mechanism, with World Bank technical assistance and funding. Copri's wide powers, combined with the absence within today's Peru of any formal political opposition, indicate the path ahead will be unobstructed.

The debt-equity swap mechanism is intended to attract purchasers for difficult-to-sell companies rather than to dent Peru's overall debt position. Total foreign debt, according to government figures, amounts to $22.6bn – public sector debt is almost 93 per cent of the total and some two thirds represent arrears accumulated since Peru declared a debt moratorium in the mid-1980s.

First to be used in the privatisation drive is Peru's short-term working capital and trade-related debt paper. This amounts to some $813.5m and currently trades at between 30 and 63 per cent of face value, depending on whether interest is being paid. Discounts mean this debt will be quickly eaten up in the purchase of a handful of big companies.

Once short-term debt is cleared, the government hopes to move on to medium-term debt. This is syndicated and requires the negotiation of waivers from lending banks before it can be freed for use. Citibank, leader of the private banks' steering committee, says one obstacle to this – objections from a New York bank – are almost cleared.

Principal holders of Peruvian short-term debt paper include Chase Manhattan, Manufacturers Hanover, Union Bank of Switzerland, Bank of Tokyo, Citibank, Crédit Lyonnais and Midland Bank. The last three are all reported as expressing interest in swapping some of their paper to buy into Peru's state-owned banking system, specifically into Banco Popular, which is near collapse and which Midland is examining closely (see above story), and into the healthier networks of Continental and Interbanc.

Further interest in debt swaps is expected from Peru's supplier creditors who are owed $1.4bn. The Japanese have been important creditors since the construction of the northern Peruvian oil pipeline and are reported to be behind some of the bigger current purchases of Peruvian paper on the New York secondary market. They, the German company Ferrostal, supplier of submarines to the Peruvian navy in the 1970s and Yugoslavian Energoprojekt account for the lion's share of supplier debt.

Citibank, itself the holder of some $100m in Peruvian debt paper and, through Citicorp in New York one of the recently active dealers in debt paper, is "very eager to get involved in privatisation", according to Lima branch manager Rafael Venegas. He intends to bring together holders of debt paper into consortia under a specialist "operator", as the bank has done in other countries.

"It's a bit trickier in Peru because of the country risk element," Mr Venegas admits. Japanese creditors are likely to seek only a small percentage in some of Peru's giant state mining companies.

Mr Montoya expects that Peruvian privatisation bargains will be snapped up primarily by Latin Americans. "What we've mostly got is state companies worth between, say, $20m and $50m – not big enough to interest the major transnationals," he says. "But they'll be attractive to neighbouring countries who are looking to expand and build up networks."

Much remains to be done in selling the privatisation philosophy to unions and workers in Peru, but the government hopes its plans to hand over 10 per cent of state shareholdings directly to workers, on completion of privatisations, will defuse opposition.

"The best guarantee of the non-reversibility of the process is to turn workers into popular capitalists," says Mr Montoya.

Perot challenged to show evidence of dirty tricks

By Jurek Martin, US Editor, in Washington

THE VERBAL war between Mr Ross Perot, the independent aiming to win the US presidency, and the Republican Party has continued unabated, with Governor Bill Clinton, the presumptive Democratic candidate, pointedly distancing himself from the fray.

Mr Rich Bond, chairman of the party, phoned the Larry King Live television show and challenged Mr Perot to produce on air one shred of evidence of Republican dirty tricks. Mr Perot hit back: "I can spend until midnight, but I'm not going to do what you want on your terms."

Earlier on the show, Mr Perot produced a letter of January 1990, from President George Bush, thanking the Texan billionaire for having offered to winkle General Manuel Noriega out of his refuge in the Papal Nunciature in Panama. The warmth of Mr Bush's words, he said, showed there was no personal animus between the two and that suggestions to the contrary were also part of the scheme to "redefine my personality."

Mr Perot had implied on Wednesday that the media accepted feeds from "the Republican dirty tricks committee." Several newspapers vigorously denied this yesterday, pointing out that Mr Perot had produced nothing to confirm his allegations.

The Texan clearly feels himself the victim of a conspiracy by the Washington political and media establishment. In all his public appearances over the last 24 hours, he has claimed that only he is in touch with the American people, who can see through the attempt to lay him low.

Mr Clinton, sensing an opportunity in the Bush-Perot open warfare, said yesterday: "There's a billionaire, a millionaire and me – and most of the American people are more like me."

Latin Americans advised to spread success widely

By George Graham in Washington

US OFFICIALS are urging Latin American and Caribbean finance ministers to spread the results of their new-found economic success more broadly among their populations.

At a meeting in Washington yesterday of ministers from selected countries in Latin America and the Caribbean, the US called for a continuation of the economic reforms that have taken root in many countries over the past three or four years and helped to curb the runaway debt problems that hamstrung them in the 1980s.

"What now has to take place is not only a continuation of those reforms, but they have to become more broadly shared," a senior US Treasury official said.

"Obviously, in order to keep the people of Latin America convinced that this is something good for them, the economic fruits of these reforms can't all be in the stock market; they have to flow down to the people," he added.

The US warning follows an attempted military coup in Venezuela in February, which was partly attributable to discontent over the harsh impact of the country's economic reform programme, backed by the International Monetary Fund.

This had made life harder for many of the poor and the middle class by cutting government subsidies.

"There is an increasing recognition in Latin America that the consolidation of economic reforms requires good governance and a social agenda," commented Mr Richard Feinberg, president of Inter-American Dialogue, a Washington-based policy centre.

He noted it was easier to stress democratic values as an important component of economic reform now that the Cold War was over and the US was no longer supporting so many dictators in Latin America.

NEWS: WORLD TRADE

US-led group wins Java power contract

By William Keeling in Jakarta

MISSION ENERGY of the US is to head a consortium to build the 2,400 MW Paiton power project in East Java. The decision by the Indonesian government is a rebuff to Intercontinental Electric Inc (IEI) of the US which has been negotiating for at least part of the $3.6bn (£1.9bn) project.

Paiton would be the first instance in Indonesia of a private build-own-and-operate scheme linked directly into the national grid. The project's output would be purchased by PLN, the state utility, at an agreed rate.

Such schemes are regarded by the World Bank as the way forward for Indonesia which requires investment of about $20bn in electric power between 1994 and 1998, a third of which is expected to come from private sector. The government had planned to split the Paiton project into two separate contracts, each for two 600 MW units worth about $1.8bn, and had been talking with consortia led by Mission Energy and IEI since last year.

In a recent confidential meeting with both companies, the government said it would accept just one consortium and "expressed a clear preference for Mission Energy", a government official has said.

The Mission Energy consortium had a better technical proposal, and showed greater capability to raise equity finance and loans necessary for the project's completion, the official noted.

The project will still be built in two stages, the first to be completed by 1997, but the consortium will have a first option on construction of the second stage.

At the meeting, the government suggested some members of the IEI consortium should be taken on board by Mission Energy. The IEI consortium includes the Bimantara Group – led by President Suharto's second son – Westinghouse and Mitsubishi Heavy Industries.

Industry officials say Bimantara is negotiating with Batu Hitam Perkasa, an Indonesian coal-mining company and local partner of the Mission Energy consortium, for an equity stake of up to 10 per cent in the project.

Other members of the Mission Energy consortium include General Electric of the US and Mitsui of Japan. Negotiations between the government and the new consortium are expected to begin in August with the contract finalised early next year.

US labour fears Mexican role in the revolution

The trade pact has divided American labour and business along traditional lines, writes **Nancy Dunne**

LOBBYISTS locked in debate over the North American Free Trade Agreement (Nafta) concur on at least one point: jobs will be lost and jobs will be gained if the pact becomes a reality.

While the Bush administration portrays the Nafta as a job-creating dynamo, American unions fear it will throw thousands of workers out on the streets. There are studies to support each contention.

Mr Kay Whitmore, chairman of Eastman-Kodak and head of the government's private sector Nafta group, argues that the pact will create US jobs, citing the example of his own company. Eastman-Kodak expanded in Mexico in the 1960s to penetrate the trade barriers of the day. Since then, for every three jobs created in Mexico, the company says it has hired one additional support person in its US facilities.

Mr Whitmore gives numerous examples of added jobs resulting from Mexican trade and investment. Procter & Gamble expects free trade to result in 2,000 new jobs, he said. Dana Corp, a car parts supplier, exports twice as much to Mexico as it manufactures there: "Every story of added exports is a story of added jobs in this country," he said. However, US unions cite a long list of companies which have closed down or laid off workers from US plants to move production to Mexico. These include the last Zenith television manufacturing facility in the US, American Car, producer of freight cars, which once employed 4,000 in St Louis, Missouri; Grand Met's Jolly Green Giant, which slashed employment from 12,000 to 115 workers after the move; and three jean-making plants owned by Farah Co. which employed 3,750 in the early 1980s but only 410 today.

"In contrast to the soothing bromides found in the economic textbooks, this rapid increase in trade has produced few benefits to the economy of either Mexico or the US," says Mr Rudy Oswald, an economist with the AFL-CIO, the US labour organisation.

Mr Charles Bremer, international trade director of the American Textile Manufacturers' Institute, estimates that 200,000 of the 1m American clothing workers will lose their jobs as a result of the Nafta. It will be less traumatic for the textile industry, which now supports the pact because it has managed to get protection built in at the negotiating table; its future losses are reckoned in the tens of thousands.

The International Institute of Economics, in its report "North American Free Trade: Issues and Recommendations", by Messrs Garry Hufbauer and Jeffrey Schott, examined all the job projection data and concluded that 112,000 US workers will be dislocated by a Nafta, but 180,000 net new jobs will be created. The outlook for unskilled workers is "bleak", they say.

The Bush administration and the large US companies pushing for the Nafta envisage a marriage between US technology and Mexican labour creating products competitive with any produced in Asia or Europe. They suggest that the US will get "good" high-wage skilled jobs because its workforce is more educated, while the manual or mass production jobs will go to the cheap labour in Mexico. This sidesteps the fact that many of the "good" manufacturing jobs also will go south.

The pro-Nafta forces argue that companies in search of cheap labour might, without a Nafta, move to Asia; Mexicans, at least, show a preference for US imports. "With or without a Nafta, low-wage workers in many sectors of the US economy will continue to face strong competitive pressures from abroad," say Messrs Hufbauer and Schott.

For this reason, Democrats in Congress will withhold approval of the agreement unless it is accompanied by a significant job training programme for workers whose job losses can be traced to the pact, and a commitment on funding. They are unimpressed by plans for a new training scheme from the administration which has repeatedly cut back current programmes.

The administration last year also promised to agree a joint "action plan" with Mexico on labour rights, including improved working conditions, child labour laws and health and safety measures. Much to the disgust of many Democrats, all that is expected to emerge is a fact-finding plan, like a study of Mexican labour.

This will provide ammunition for the AFL-CIO and its allies in Congress, who say that they will support only "the right kind of Nafta". By that they mean one that has Mexican agreement to allow unionisation free of the kind of government control which has suppressed Mexican wages.

"If the collective bargaining system does not function, Mexico will maintain its low wage advantage for a generation or more," said one US union official. He contended that unless wages are permitted to rise to create a large middle class then Mexico will not develop into a consumer market capable of supporting American jobs.

Mr Sheldon Friedman, an AFL-CIO economist, sees the Nafta as an attempt by the administration to help the US oil companies "get their foot in the door" in Mexico and to help US banks recover their bad loans.

A new assembly line in Mexico could backfire on the American worker, argues the AFL-CIO

Japanese minivan ruling angers the Big Three

By George Graham in Washington

US car makers have suffered a setback in their efforts to win the imposition of dumping duties on imports of Japanese minivans.

Although the Commerce Department ruled last month that Toyota, Mazda and other Japanese manufacturers had sold their minivans in the US below production cost, the International Trade Commission (ITC) decided this week that US manufacturers had not been harmed by the imports.

Commissioners noted that minivans were one segment of the motor vehicle market where domestic manufacturers still dominate, with an estimated 88 per cent market share.

They said that Chrysler was selling as many vans as it could make, while any problems Ford and General Motors had in selling their vans could be attributed to the slow US economy and to their own product and price shortcomings. The ruling infuriated the US motor industry, which had been counting on the US unfair trade laws to help them hold back Japanese competition.

Action urged on east European steel

By Andrew Baxter

WESTERN governments should act to stimulate domestic demand for steel in eastern Europe, relieving the pressure on local steelmakers to export at low prices, according to a report by Meps (Europe), the steel consultancy.

East European governments, meanwhile, should press on quickly with rationalisation, paving the way for generous privatisation terms to encourage foreign investment in steel. The recommendations are made in East European Steel, a 240-page report which analyses the problems of the steel industries in Bulgaria, Hungary, Poland, Romania, the former Yugoslavia and the former Soviet Union.

The collapse of the former Soviet Union and political upheaval in eastern Europe have seriously damaged these countries' traditional markets. East European producers have tried to switch to exporting to western Europe, provoking complaints from some western steelmakers about dumping.

The Meps report stresses that inward investment by the west, encouraged by western governments, is essential to stimulate domestic demand for steel in eastern Europe, thus defusing the row over imports to the west.

However, it warns of a potential obstacle to privatisation projects caused by the imports issue. Many east European privatisations in consumer goods have successfully used low labour costs to produce finished products for domestic consumption and more importantly, export to western markets, it says. But the strategy would not be readily acceptable in the steel sector – due to the limited growth potential for steel and the hostility to increased imports into western Europe.

The report says several joint venture partnerships are being negotiated but are taking a long time to complete. East European governments, says Meps, need to be more flexible in valuing assets and need to actively promote joint venture partnerships. Western governments should give assistance to companies to form joint ventures through some limited form of tax concession. Meps says east European governments must accept that future crude steel production will be only 65 per cent of the peak years in the late 1980s.

East European Steel, Meps (Europe), 263 Glossop Road, Sheffield, S10 2GZ, UK. £1,750.

Canada to extend patent rights on brand-name drugs

By Bernard Simon in Toronto

CANADA has abandoned a controversial policy, adopted more than two decades ago, of forcing brand-name pharmaceutical companies to license their products to generic drug makers.

The federal government has tabled a bill lengthening patent protection for medicines from 17 to 20 years, and giving them the same protection as all other products. Prior to 1987, when the rules were first tightened, generic companies could apply for manufacturing rights within two or three years of a drug coming on the market in exchange for a modest royalty fee. Generic medicines are usually priced 15-30 per cent below brand-name competitors, and the government estimates that the new legislation will add C$75m (£33.7m) to $125m to the total cost of drug purchases over the next five years.

The two dozen or so Canadian generic producers have been a thorn in the side of the international pharmaceutical industry for many years. Besides undercutting prices in the domestic market, they have been active exporters of cheap medicines.

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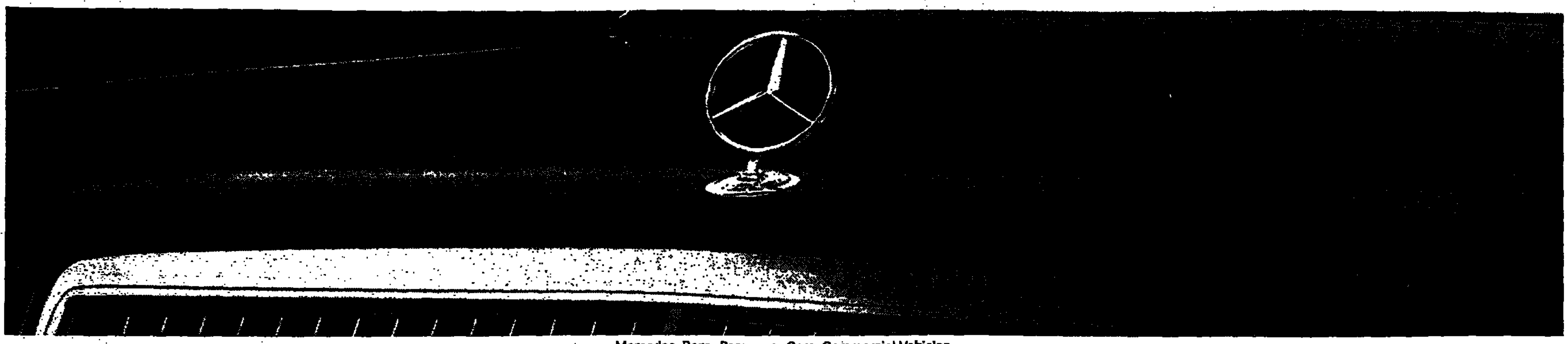

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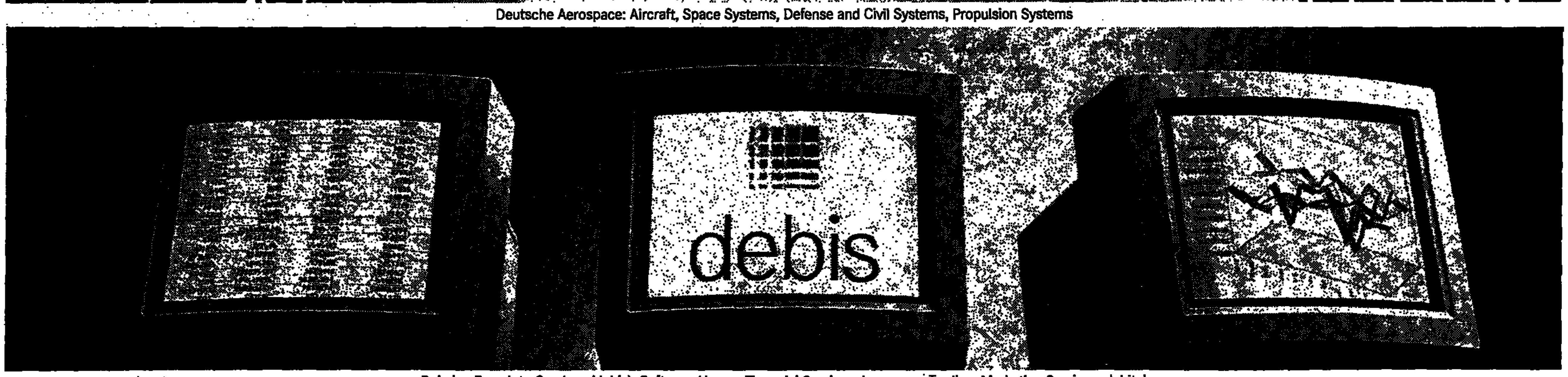

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Daimler-Benz Group (Amounts expressed in DM Millions)	1991	1990
Sales	*95,010*	85,500
EC Market	63,350	55,550
Germany	44,443	36,674
Other Markets	31,660	29,950
Net Income	1,942	1,795
Cash Flow	7,790	6,711
Investments	9,535	6,857
Research and Development	8,401	8,193
Employees (at Year-End)	379,252	376,785
Germany	305,295	303,404
Foreign	73,957	73,381

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DAIMLERBENZ

Maxwell trusts hold MGN shares

By Andrew Jack

MORE THAN 10m shares in Mirror Group Newspapers (MGN) are among the assets held by six secretive Liechtenstein trusts created by the late Mr Robert Maxwell, a lawyer representing the trusts said yesterday.

The shares appear to have been bought by the trusts as part of an alleged share support operation to sustain the MGN price last summer.

But rival claims on their ownership mean that Maxwell pensioners are unlikely to benefit from the shares, which at the currently suspended price of 125p would be worth at least £12.5m.

Mr Kamil Braxator, a lawyer with the General Trust Company in Vaduz, Liechtenstein, told the BBC yesterday that six trusts created by Mr Robert Maxwell hold MGN shares.

The trusts or *stiftungen* – which he named at a press conference in Liechtenstein last week – are Alandra, Baccano, Kiara, Jungo, Corry and Akim.

Mr Braxator is currently drawing up an inventory of assets held by the trusts, and said there may be other assets although they are not believed to contain any cash.

He said the trustees he represented were keen to return any assets to Maxwell pensioners but stressed there were rival claims on the ownership of the shares.

Separately, it emerged that the MGN shares were pledged to banks as collateral for a series of loans, and are likely to be claimed by accountants at Arthur Andersen, administrator to the private Maxwell business empire.

In March, Andersen said it had discovered 10m in MGN share purchases funded through the private companies in May last year and a further 10m in June. That lifted the proportion of MGN's share capital claimed by the administrators from 51 per cent to 54.8 per cent.

It is believed that money for the share purchases was provided through a Swiss trust called Servex and a US company called TIB, and the transactions were carried out by Goldman Sachs, the US investment bank.

Most of the shares appear to have been deposited with Akim, one of the Liechtenstein trusts, but were then pledged to banks as security against further loans to prop up the ailing Maxwell empire.

The MGN purchases are in addition to separate alleged share support operations concerning Maxwell Communications Corporation, which are being investigated by the Serious Fraud Office.

Opposition MPs likely to obstruct Maastricht bill

By Alison Smith

SENIOR MPs in the opposition Labour party are expected to vote against any attempt to curtail debate on the bill endorsing the Maastricht treaty, adding to government difficulties on getting the legislation through Parliament.

A decision by Labour to oppose any move by the government to limit scrutiny of the bill by Parliament could jeopardise the prospect of completing the legislation at all.

In the worst case scenario, the choice for the government might be between losing the bill simply because of the length of Parliamentary time taken for debate, and losing it after trying and failing to push it through too rapidly.

Some opposition spokesmen are acutely conscious that any move by Labour to obstruct the bill would have widespread and negative repercussions on the party's position with its European counterparts – particularly if the move proved effective.

A European constitutional convention to explore ways of transforming the European Community into the equivalent of a modern parliamentary democracy was proposed yesterday by the Liberal Democrat party.

Britain's centre party is committed to supporting Maastricht, but Mr Paddy Ashdown, its leader, accused Labour and the Tories of "a conspiracy" to stop debate on the treaty in the House of Commons. He said politicians had failed "to make the process of Maastricht, and the ideas of the new Europe, live in the hearts and minds of our citizens".

The balance of opinion, however, is that the task of securing the bill is a problem for the government and not one where the opposition should give them an easy time.

Focusing the party's opposition on the handling of the bill rather than on its substance is also seen as offering Labour the best way of causing difficulties without compromising its pro-European stance.

Already more than 120 amendments to the bill have been proposed for debate, together with more than 30 new clauses. It will be for Miss Betty Boothroyd, the Speaker, to choose which should be debated when the bill is discussed in the autumn.

The amendment most likely to create common ground between Tory rebels and opposition MPs is still seen as one proposing a referendum on Maastricht.

Mr John Smith, the odds-on favourite to be the next Labour leader, has publicly said that he opposes the idea, but some elements in the party believe that support for such a move offers the best chance of keeping Labour united over the bill.

Nadir may face only 16 out of 60 charges

By Raymond Hughes

MR ASIL NADIR, former chairman of Polly Peck International, may have to answer only 16 of the more than 60 criminal charges brought against him when his trial starts next March.

Mr Robert Owen QC, counsel for the Serious Fraud Office, said in the High Court yesterday that the provisional indictment contained 16 specimen charges of theft against Mr Nadir and three of false accounting against his co-defendant, Mr John Turner, PPI group chief accountant.

"At present it is a provisional selection but we expect the indictment to be of that order," he said.

He referred to the indictment when applying successfully for leave to seek judicial review of the decision of the trial judge, Mr Justice Tucker, on June 8 to throw out 46 charges against Mr Nadir alleging the theft of £119.5m from PPI.

Mr Owen said the judge had made an error of law which, if allowed to stand, would, he said, amount to "a fraudsters' charter".

He said that on Monday the judge had allowed the SFO to substitute 44 other charges, alleging thefts from Unipac, PPI's Turkish-Cypriot subsidiary, for the dismissed charges.

Ten of the present proposed specimen charges came from the substitutes.

Mr Owen said if the SFO won on judicial review, and had the dismissed charges restored, the specimen charges at trial would all relate to alleged thefts from PPI.

Mr Justice Tucker, who said there was no doubt Mr Nadir was authorised by PPI to make transfers, decided that the transfers in question had been merely preparatory acts not involving misappropriation.

Mr Justice Tucker added, however, there was evidence that the subsequent withdrawal of the funds from the Unipac and IBK accounts had been unauthorised.

Britain in brief

Government to publish secret papers

The government signalled its determination to open up Whitehall to greater public scrutiny with the announcement that secret intelligence papers would no longer be withheld automatically from publication under the 30-year rule.

Mr William Waldegrave, the public service minister in charge of the prime minister's drive for more open government, told BBC Radio 4's Analysis programme that some documents relating to the top secret Joint Intelligence Committee (JIC) could now be published.

Mr Waldegrave also announced that he would soon publish a policy document on open government. This would include plans to sweep away more than 150 unnecessary restrictions on the release of government information.

Competition bid in drink market

The government announced further moves to increase competition in the £1.3bn carbonated drinks market.

Mr Neil Hamilton, corporate affairs minister, asked Sir Bryan Carsberg, director general of fair trading, to secure undertakings from Coca-Cola & Schweppes Beverages (CCSB) and Britvic, the industry leaders, to end restrictive or exclusive supply agreements with pubs and other leisure outlets.

The action follows consultations between the department of trade and industry and the companies after a Monopolies and Mergers Commission investigation last year.

Tax officials defend tactics

The Inland Revenue has launched an unusual public defence against accusations that its investigation tactics are unfair to taxpayers.

In the latest issue of Taxation, the weekly tax magazine, Mr Keith Deacon, director of operations for the Revenue, calls recent criticism of its inspectors inaccurate, emotive and misleading.

He says the Revenue only refuses to accept tax returns sent to it in just over 2 per cent of cases and denies that inspectors have to meet individual targets which might encourage them to pursue investigations.

Rail union seeks regulator

The leader of Britain's largest rail union has demanded the establishment of an "Ofrail" organisation to regulate rail fares if a campaign to halt privatisation failed.

However, Mr Jimmy Knapp, general secretary of the RMT transport union (above), told his union's annual conference in Llandudno, that privatisation was inevitable.

"The biggest advantage we have is that the government don't know how to proceed – they haven't got a clue. They have got no answer to the technical problems and commercial difficulties." He promised a vigorous campaign to mobilise public and political support, saying industrial action could not be ruled out.

Rivers body to act on costs

The National Rivers Authority intends to recover more of its costs from those who benefit directly from its work and to reduce its dependence on government grants, according to its latest corporate plan.

The plan from the rivers watchdog sets out key priorities for protecting and improving the water environment in England and Wales up to 1996. It defines clear targets over the next two years for the NRA's main functions – water quality and resources, flood defence, fisheries, recreation, conservation and navigation.

The main priorities include tackling drought and low-flow problems; completing a long-term strategy for sustainable water resources; and implementing a new charging system for water abstraction by April next year.

Circulation of cash slows

Bank of England figures yesterday disclosed a sharp slowdown in the growth of bank notes and coins in circulation during June, adding to evidence of poor trading conditions in Britain's high streets.

The Bank reported that banknotes in circulation increased by only 0.5 per cent in the week to June 24 compared with the equivalent week of 1991, following a 0.8 per cent annual increase in the previous week.

Council backs university

Lincolnshire County Council will provide £10m as the initial financing for the development of a new university in Lincoln, eastern England.

Nottingham Polytechnic has been chosen to supervise the opening of a university college in the city by 1996 and then to manage the college so that it will grow into an independent university by the early years of the next century.

"We now have a fighting chance that Lincolnshire will get its own university," said Mr Arthur Ridings, the county's director of education.

Borzello seeks press review

Mr Bob Borzello, who submitted more than 125 complaints against the press to the old Press Council, is to try to take the Press Complaints Commission to judicial review.

Mr Borzello has instructed solicitors Stephens Innocent to begin judicial review proceedings against the commission – which succeeded the Press Council – because it will not in most cases accept "third party" complaints.

The commission usually only accept complaints from those directly effected by an article. Mr Borzello, chairman of Camden Graphics, a graphic arts publishing company which once edited a popular newspaper in the US, has specialised in complaining about alleged derogatory references on racial or social minorities in newspapers.

NEWS: UK

Photograph by Ashley Ashwood

Side by side on Sunday: but will Camden, north London, still be able to cater for the soul and the larder this weekend ?

Stores face new Sunday trading bans

By Robert Rice, Alison Smith, John Thornhill and Bethan Hutton

HUNDREDS of home improvement stores and supermarkets in England and Wales could be forced to close on Sundays from this weekend following a ruling yesterday by the Law Lords, Britain's most senior judges, which gives back to local authorities the power to enforce the Sunday trading laws.

The House of Lords overturned a 1991 Appeal Court ruling that councils were not entitled to injunctions banning Sunday opening unless they undertook to compensate stores for loss of profits in the event of the 1950 Shops Act being held incompatible with European law. The European Court of Justice is expected to rule on the English Sunday trading laws in October.

The Appeal Court ruling had made the Shops Act, which governs Sunday trading, virtually unenforceable. Before the ruling, councils had obtained hundreds of injunctions to enforce Sunday closing on major chains.

In a twist to the Sunday trading battle, the Law Lords also said that in the event the Shops Act being declared incompatible with EC law, it was the UK government and not local authorities which would be liable to compensate the stores for lost profits.

The immediate reaction from UK ministers was that the decision underlined the need for the government to act quickly once the European court has ruled in the autumn.

Although the threat of having to pay compensation appeared to have come as a surprise, ministers pointed out that it would still be for local authorities to decide whether to seek injunctions.

Kirklees, one of the councils involved in the test case, welcomed what it called a "historic ruling", adding: "Now that the position on injunctions has been clarified we will be writing to certain companies asking them to comply with the law." Most councils, however, were taking a cautious stance on the Lords' ruling. "This is local government, you know," said one official asked if injunctions would be in place for the weekend.

Wickes, the home improvement chain in the test case, said it would still be opening most of its 65 stores this Sunday. "If local authorities choose to proceed [with injunctions] jobs will be lost, adding to unemployment and millions of pounds of taxpayers' money will be wasted," it said.

Big supermarkets, such as J. Sainsbury, Tesco, Safeway and Asda, which have been opening superstores every Sunday since December, were wary of commenting before studying the fine print of the judgment. However, in the absence of injunctions against specific stores, it seemed likely that most of the big chains would continue to trade seven days a week at selected locations.

Oftel to investigate cellular phone trade

By Michiyo Nakamoto

THE UK's Office of Telecommunications (Oftel) has launched an investigation into alleged unfair practices by the big cellular phone network operators, Cellnet and Vodafone.

Oftel's investigation comes in response to a complaint by Talkland International, an independent cellular phone service provider which is 51 per cent owned by Compagnie Generale des Eaux, the French water company.

The complaint highlights concerns about the lack of competition in the UK cellular phone market where there are currently only two network companies - Cellnet and Vodafone. BT and Securicor have stakes in Cellnet. Vodafone owns the Vodafone network.

The network operators are not allowed to offer their services directly to consumers but are required to do so through service providers.

Talkland claims the network operators cross-subsidise their own service providers and abuse their market dominance by imposing unfair terms on independent providers.

LLOYD'S OF LONDON

Insurance losses prompt wage cuts and share sales

By Richard Lapper

THERE WERE two signs yesterday of retrenchment among professionals at the Lloyd's of London insurance market, where record losses of £2.06bn were announced on Wednesday.

In a radical move, AJ Archer Holdings, one of the largest agency groups at Lloyd's, which manages 10 of the market's 278 syndicates, announced a 10 per cent across-the-board salary cut for underwriters.

Separately, Steel Burrill Jones, the insurance broker, confirmed that two of its directors had sold shares partly in order to pay insurance losses at Lloyd's.

At Archer, Mr Chris Burton, joint managing director, said the pay cut was "a positive step on behalf of Names. Underwriters should share with the fortunes of syndicates."

Archer underwriters are paid an average of more than £100,000 per year, although they also obtain substantial extra benefits in the form of pension contributions.

Archer has followed the example of other large agencies including Octavian Group, which introduced a 10 per cent cut for its senior underwriters in April, while other agencies have frozen salaries.

Figures released last year showed that over a third of Lloyd's underwriters received more than £100,000 in 1987, the last year Lloyd's as a whole reported profits.

Mr Paul Archard, chairman of Lloyd's Underwriting Agents Association, said wages accounted for between 25 per cent and 30 per cent of syndicate costs and that increasingly agencies were tending to reduce basic salaries and increase the amount offered in profit commission.

At Steel Burrill Jones, Mr Tony Keys, finance director; and Mr George Boden, chief executive, have sold 100,000 SBJ shares – worth about £300,000 – partly to meet losses at Lloyd's.

Both are members of loss-making syndicates – which are involved in "spiral" reinsurance business – reinsuring the high level catastrophe exposures of syndicates and London companies.

Mr Keys, who resigned from Lloyd's at the end of 1990, had a £15,000 share in Gooda Walker syndicate 290, which has left him with losses of over £45,000.

When Mr David Coleridge, Lloyd's chairman, appears before a joint committee of MPs next month they will have the opportunity to question him on both the Walker report into alleged malpractice and the conclusions of a committee headed by Sir Jeremy Morse, chairman of Lloyds Bank, on measures to strengthen the market's regulation and leadership.

Details of both reports are expected next week.

■ **An extraordinary general meeting requested by Names will be held on *Monday 27 July at Lloyd's* City headquarters**

■ **Mr David Coleridge, Lloyd's chairman, is scheduled to appear before a joint meeting of the Tory backbench finance and industry committees on July 14**

Consortium may launch RiverBus bid

By Richard Tomkins, Transport Correspondent

A CONSORTIUM of public and private interests is on the brink of launching a bid to rescue RiverBus, London's loss-making Thames passenger service, from closure.

The Riverbus is due to close next Tuesday following the financial collapse of Olympia & York's Canary Wharf property development, which had subsidised it.

The administrators of Canary Wharf have refused to underwrite RiverBus's losses beyond the end of June. This means the company is due to become insolvent and close at midnight on Tuesday.

A consortium, however, of interests in London's Docklands is close to agreeing on proposals to inject £300,000 into the company to keep it going for three months while attempts are made to save it.

The consortium is led by the London Docklands Development Corporation, the state-owned body charged with the regeneration of Docklands. Members include the Canary Wharf administrators, the Peninsular & Oriental Steam Navigation Company, several large Docklands businesses, and local authorities in the Docklands area.

The consortium wants the RiverBus to survive because it is an important transport link between central London and Docklands.

Texaco halts relocation to Docklands

By Vanessa Houlder, Property Correspondent

TEXACO, the international oil company, yesterday threw into doubt its relocation to Canary Wharf by announcing that its staff would not move to the insolvent office project in London's Docklands in August, as planned.

Texaco said it was delaying its move because of the uncertainty on several aspects, particularly the office environment and services required inside and outside the buildings.

Its concerns are believed to include the future of the Jubilee Line extension and the riverbus service. Negotiations with the project's administrators are continuing.

Mr Glenn Tilton, Texaco chairman, said: "I must emphasise that we are determined to ensure our relocation is conducted at the right time, in the right way and on the right terms. Nothing less will do."

Texaco's 1,000 staff will remain in their existing offices in central London.

Texaco is the second prominent tenant to reconsider its move to Canary Wharf. Last week American Express said it would not move there unless Olympia & York met its contractual obligations. Documents filed in a US bankruptcy court showed that O&Y owed American Express £22m on May 28 when Canary Wharf went into administration.

THE PROPERTY MARKET

Vanessa Houlder on UK surveyors' overseas expansion

Common pursuits

Whenever the British property industry has ventured overseas, it has been enthusiastically cheered on from the sidelines.

In 1961, for instance, the Investors Chronicle magazine declared: "Clearly our property groups will colonise on a tremendous international scale ... the British property man has no peer."

Three decades on and a similar view still prevails. "There are only a few sectors of UK business left that can claim to be world leaders. British surveyors ... should be added to this select group," according to the the Chartered Surveyors Survey, published by the Economic Development Briefing last year.

Unsurprisingly, these sentiments are echoed throughout the industry. Mr Michael Aukett, chief executive of Aukett, a firm of architects which opened a Geneva office in 1989, says: "We are five years ahead of Europe in terms of business parks and office parks."

Mr John Pelling, president of a pan-European association of building surveyors states: "In the UK, building surveyors are recognised as having expertise on problems of existing buildings and refurbishment. Continental Europe lacks that body of expertise."

Spurred on by their growing self-confidence and the approach of the single European market next year, the number of UK professionals working in continental Europe has risen sharply in the past few years. A plethora of alliances and mergers has emerged in recent years, adding to the handful of British property-related companies that are already long-established on the continent.

But, like the Investors Chronicle's comments of 30 years ago, the expectations of some of the British firms moving into continental Europe are over-optimistic. For sure, some companies would probably benefit from a more cautious approach. In most property markets, local operators rarely give ground to interlopers. The UK property industry, is no exception. For all its sophistication, the UK sector has more than its share of parochial and idiosyncratic elements, which often make the skills of British property professionals difficult to transfer to the continental market.

This problem of incompatibility is being compounded by the impact of recession, which has checked the momentum built up in recent years for European expansion.

Demand for UK surveyors' services in Europe has fallen by 14 per cent in the past two years, though it still outstrips 1990 levels, according to the Chartered Surveyors Survey.

This downturn may ultimately unravel the weaker alliances that emerged during the buoyant late-1980s. . However severe its impact, the recession is unlikely to force a rout on the scale of the cuts experienced in the early 1970s following the oil price increases. On that occasion most advisers and developers who had gained a foothold in continental Europe beat a retreat back to the UK.

In spite of these setbacks, property-related professions will continue to train their sights on Europe, convinced that this is where their future lies. A report on the future of the surveying profession commissioned by the Royal Institution of Chartered Surveyors last year, said: "The UK market must be seen in the context of that for Europe as a whole. . . With the increasing breakdown of barriers it will be necessary to look upon Europe, as a whole, as part of our domestic market," it said.

Against this backdrop, the inroads made by UK surveyors in continental Europe have still been modest. Just 0.6 per cent of UK surveyors' £900m annual fees in 1991 were earned in continental Europe,

The expectations of some UK companies moving into continental Europe are over-optimistic

according to the Chartered Surveyors Survey, while only one per cent of the members of the Royal Institute of British Architects (Riba) have branches in continental Europe. And out of Riba-affiliated architects' total fee income of £1.25bn in 1991, just over half the £50m earned overseas was from Europe.

Hit by recession, property-related professionals will find it tough to regain the momentum for expansion ahead of the barrier-free single European market. At least architects' skills are mobile; some of Britain's best-known architects have enviable international reputations, such as the Richard Rogers Partnership, which designed the Pompidou centre in Paris.

The surveying profession for its part must overcome some daunting obstacles. First, there is the problem of nomenclature: the term 'surveyor' is barely recognised outside the UK. Moreover, UK surveyors often do not have a professional counterpart in continental Europe where the role of a quantity surveyor, for example, is often undertaken by an architect.

Quantity surveyors have little currency in Germany, for instance, where they are only employed on 5 per cent of projects, says Mr Alan Baker of Gleeds', a firm of quantity surveyors with an office in Germany. "Some [architects], perhaps understandably, initially see us as undermining their role . . . others have always seen the cost control function as a necessary inconvenience and are happy to hand over responsibility to us."

The lack of uniformity in surveying qualifications throughout Europe is another problem for UK firms setting up overseas. The Paris office of Gleeds is run by Mr Jean-Pierre Pajon, who is bilingual and has worked as a quantity surveyor in both France and the UK. This combination of language and technical skills is rare. "Our main difficulty is that we can't transfer London staff and French people don't have the quantity surveying training," he says.

For UK firms, entering a new market also means getting to grips with different planning, legal and architectural conventions. "Shoe horning our system onto their system doesn't work," says Mr John Gregory, a partner of Gleeds.

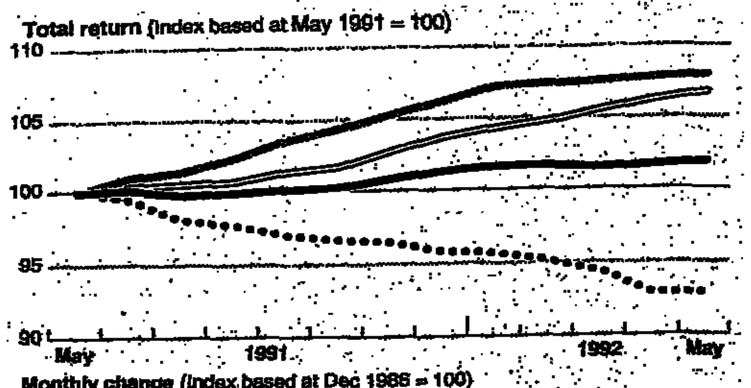
"The lesson is that every country is different. One must not go into a country and upset the status quo and disrupt what they have done for generations," says Mr John Bryden of Gardiner & Theobald, a firm of quantity surveyors.

In time, the differing practices in Europe may converge, possibly under a common EC-inspired code. An increasing flow of planning initiatives in coming out of Brussels, rather than Westminster, says Mr Tony Baldry, UK environment minister. This should aid harmonisation of skills and qualifications. "EC involvement in planning and development has been likened to an incoming tide. That tide shows no sign of ebbing," says Mr Baldry.

In a move designed to influence the debate on harmonising practices, the Royal Institute of Chartered Surveyors (RICS) is opening an office in Brussels in the autumn. RICS is concerned that well-organised and large pan-European groupings of, for instance, lawyers and management consultants will – through lobbying – exert a disproportionate influence on setting new standards and codes of practice. Surveyors, because of their traditional lack of natural alliances in continental Europe, could be left out in the cold, RICS fears.

The institution's goal is to ensure that surveyors play a leading part in harmonising practices within Europe's property industry. "We are trying to position UK chartered surveyors as leaders," says Ms Marianne Tisser, head of the European section of RICS.

IPD monthly index



Monthly change (Index based at Dec 1986 = 100)

	May 1992	Apr 1992	Change
IPD	167.84	167.35	0.2
Retail	153.90	152.92	0.5
Office	161.40	161.48	-0.3
Industrial	233.82	233.35	0.3

A positive turn

In spite of a slight lengthening of yields and continued downward pressure on rental values, the Investment Property Databank, an independent research group, recorded a positive total return of 0.3 per cent for May.

The aggregate equivalent yield rose to 9.8 per cent, largely the result of office yields moving to an all-time high of 10.1 per cent.

"It is clear that total returns are becoming more and more dependent upon the buoyancy of income streams, as both rental and capital values continue to decline," IPD says. It added that in the central London office sector, which is the worst hit in the market, more than 70 per cent of premises are currently over-rented and by an average of more than 35 per cent.

However, the longer term picture is improving, IPD says. For the year ending May, total returns improved to 2 per cent, while the fall in capital values was cut, from -5.9 per cent for the year to April to -5.7 per cent for the year to May. Rental values for the year ending May showed a slight improvement, to -6.1 per cent.

The retail sector outperformed the industrial sector for the fourth consecutive month, with retail warehouses proving the most notable target of investment.

Industrial year-on-year returns have fallen back to their January level, while retail results continue to improve. Office returns remain the lowest of the three sectors.

MANAGEMENT

Christopher Lorenz says the west is learning the lessons of quick-fire product launches

Milking profits by churning

If the pronouncements from Tokyo over the past six months were to be believed, one would think that Japanese industry was about to drop one of its most vicious competitive weapons: "product churning".

This is the practice of launching a bewildering flood of new and face-lifted products at ever shorter intervals. Its advantages are that distribution channels are kept full; consumers are constantly beguiled with novelties; and – most important – the churner's competitors barely get a look-in.

The practice has been followed for at least a decade, with growing success in markets around the world, by Japanese manufacturers of cars, consumer electronics, computers, semiconductors, air-conditioners, and other products.

At the most recent count, model changes in video cassette recorders and air-conditioners have been coming through once every six months, and as often as every three months in word-processors and cordless phones. The result is a proliferation of very similar products and a rapid rate of replacement.

The practice of churning has required not so much high expenditure on new product development as the ability to design and develop new items at remarkable speed.

Hence the rush by western companies to try to learn from Japan how to shorten their new product development cycles by improving the productivity of their design and engineering processes. This can be achieved partly by getting groups of different technical specialists to work more effectively together in integrated project teams.

A few leading western companies have gone a long way towards closing the gap, notably Hewlett-Packard, Texas Instruments, Procter & Gamble and Xerox in the US, plus Philips and Rover cars in Europe.

On product lines such as laser printers, HP is at least as fast as its Japanese rivals. It is also as good at the classic Japanese strategy of launching a string of "new" products which are only slight variants of the ones they replace or augment. Yet, at a time when most western companies are still only starting to shorten their product development cycles, and to speed up the rate of new product introduction, the Japanese are hinting that they have overdone "product churning", and will now rein it back.

Starting in January with Akio Morita, chairman of Sony and Japan's unofficial trade ambassador, and quickly followed in February by the Ministry of International Trade and Industry (Miti), there has been a series of statements from Tokyo that this must be done for two purposes.

First, for corporate financial and marketing reasons: to cut development and investment costs and thereby boost hard-pressed corporate profitability and dividends; and to avoid aggravating incipient consumer resistance to purely cosmetic product changes.

Second, for national socio-economic and international environmental reasons: to reduce the over-use of "resources". By this is meant not only steel and aluminium but also human beings: the Japanese government is under pressure to reduce the average working week and no one works longer than a Japanese development engineer.

Morita's ruminations were intriguing in their combination of micro with macro arguments. Calling upon industry to behave more responsibly towards all its "stakeholders" – not just shareholders, but also employees, customers, society and the environment – he said companies must give less overwhelming priority than in the past "to victory in the market-place".

Various aspects of the Morita and Miti clarion calls have been echoed widely by company bosses. A vice-president of Matsushita, the consumer electronics giant, was quoted in a Japanese newspaper as declaring that "the task for manufacturers in the future is to make products that have added value and a long life".

In the motor industry, both Nissan and Toyota have expressed their intention of stretching from four to five years the interval at which they make significant changes in their mass-market models. To the western eye and ear, all this seems like manna from heaven. But is it to be taken at face value? And can western manufacturers now ease up on their panic-stricken rush to learn how to "churn" products themselves?

Common sense suggests that the answers to the two questions are negative. Japanese companies (like German ones) have a habit of magnifying their problems for foreign consumption, and waxing lyrical about the good of mankind.

The most authoritative western source of expertise on product churning is the consultant credited with inventing the term, Kevin Jones of McKinsey & Company, who has lived in Japan for a decade. Jones confirms the common-sense view. "Product churning won't stop – it has become part of the corporate woodwork and is now a necessary competitive tool," he says. "On the other hand, it probably will not accelerate any further."

Will it slow down, even temporarily, as companies struggle to rebuild their profits? Will Nissan and Toyota, especially, turn their words into action? "I hear their comments, but I'm not sure it's going to happen," Jones comments. As he says, the car-makers face quite a dilemma. If they do stretch their new model launch cycle from four to five years, a sort of peace pact could prevail for a while. But he points out that there would be a constant temptation for one company to break ranks. "So things will probably stay as they are."

Rather than dropping product churning, Jones forecasts that manufacturers will keep it at its current level, and add three further weapons to it:

- Still greater productivity in research, design and development.
- The injection of more really new content and added value into their "new" products.
- A smattering of western project evaluation techniques, at least at relatively elevated levels in the corporate hierarchy. The absence of this in most Japanese companies has been one of the main factors behind their speed of product churning, explains Jones.

Except at a few companies, the middle managers involved in regular product development and launch decisions tend not to possess the financial skills necessary to calculate returns on investment in individual new products, or even in entire product lines, he reports.

Development and launch decisions are based on simpler principles, such as market leadership, beating the competition and supporting distribution channels.

Because of this, Jones forecasts that it may take a decade for western financial analysis techniques to permeate product development.

In other words, top Japanese managers like Sony's Morita may declare their intent to convert to a more western style of decision-making, but many decisions below them may continue to be made in much the same way as before. For the time being, the wind of change apparently blowing in Tokyo is, therefore, not at all warm for the majority of western companies. Only the foremost leaders can feel at all confident. So the real message from Tokyo is decidedly double-edged. Far from being reassured, most western managers should be really churned-up about it.

Akio Morita: says Japan should rein back on the introduction of new products and called on industry to give less overwhelming priority than in the past to 'victory in the market place'

Why spreading the load is all in a year's work

David Goodhart looks at moves towards annualised working hours systems which cut overtime

Companies which employ the 2m people who currently work more than 48 hours a week in Britain have just been saved the heavy cost of reorganising their businesses. At British insistence, employment ministers of the European Community have reached a deal on the controversial working time directive which means in practice that nothing need change in Britain for at least 10 years.

Even though British employers are off the hook for now, the directive may, nevertheless, concentrate their minds on the issue of working time, and pressure is bound to increase to cut excessive hours.

British workers work longer and less productive hours than many of their competitors, with overtime running at more than 10 per cent of hours worked, compared with 3 per cent in Germany and virtually none in Japan.

The vested interests defending high overtime working are strong and the Brussels directive may provide the jolt needed to push Britain towards a better organisation of working time.

That argument is strongly pressed by Philip Lynch Associates, a consultant that is helping a growing number of companies introduce *annualised hours systems.*

This entails calculating working time on an annual rather than a weekly or monthly basis with employees contracted to work, for example, 1,764 hours per year rather than 38 per week. The system gives employers flexibility in the scheduling of work, allowing for longer standard hours at some periods and shorter hours at others.

That avoids a pattern of underwork followed by massive amounts of overtime. Overtime is not usually ruled out in annualised hours systems but it becomes rare and *without institutionalised overtime,* workers have nothing to gain from spinning out work in normal time.

"If the working time directive forces a re-think on deeply entrenched practices, it can only do good. Annualised hours is one of the spring-boards to bring us up to international best practice," says Peter Curran, a senior partner at Philip Lynch.

Annualised hours can allow for large variations in the working week but still remain within the 48 hour weekly limit desired by most EC countries and the trade unions.

The system has become increasingly popular in British industry and according to a recent Department of Employment survey now covers about 6 per cent of UK employees. Initially most interest was expressed by continuous process manufacturers in paper and board, glass, cement and chemicals.

The paper and board industry already has a national framework agreement for annualised hours, while Pilkington and Blue Circle are among manufacturers to have introduced it. Industries with highly seasonal work flows, like food and drink or leisure, have also taken a strong interest, as has the distribution sector.

Drawbacks with annualised hours include the loss of overtime for lower paid workers who may have been dependent on it and the difficulty of responding to unexpected fluctuations in demand. The latter can be dealt with through good contingency planning and some flexibility in the rostering of hours.

Philip Lynch says that thanks to the productivity benefits of annualised hours, most people work substantially fewer hours for similar pay. It claims that introducing annualised hours can leads to a general *shake-up of working practices.*

At Express Foods, one of the UK's largest cheese producers, the company pulled down weekly hours from a peak of more than 70 to an average of 39.

According to Curran, volumes rose and labour hours per tonne fell by 36 per cent, while employee's earnings rose 9 per cent and holidays were lengthened.

Express Foods say that annualised hours added £500,000 to its profits in the first year. "If I were to stop it now I would have a riot on my hands," says Geoff Hulland, general manager.

The biggest hurdle with annualised hours, according to Philip Lynch, is management's apprehension at such change. "Ironically", says Curran, "the issues which most daunt, like the prospect of no-overtime, rarely emerge after the switch".

PEOPLE

Rob Margetts (above left), the 45-year-old chief executive of ICI's Tioxide business, has been appointed to the main ICI board in a move which marks him out as a rising star in the increasingly elderly executive team running Britain's biggest chemicals company.

Margetts, who is a Cambridge graduate in chemical engineering, has been responsible for restructuring the recently acquired Tioxide business. Before that he had been the general manager in charge of personnel and director of engineering. He will be the youngest member of an executive team whose average age is in the upper 50s.

Although ICI has not disclosed what role Margetts will play after he joins the board on September 1, he may shoulder some of the responsibilities of Frank Whiteley who is retiring as deputy chairman on reaching ICI's normal retirement age of 62 in November.

Alan Pedder, 54, is to take over as chairman and chief executive of Tioxide, following Margetts' promotion. Pedder is currently managing director of ICI's international polyurethanes business and before that was managing director of ICI Fibres.

Meanwhile, Sir Richard Greenbury, chairman of Marks and Spencer, has been appointed a non-executive director of ICI.

Sir Ralph Robins (above right), chief executive and deputy chairman of Rolls-Royce, is to become a non-executive director of Marks and Spencer. He brings a wide industrial experience to the job. Apart from his leading position at the aero-engine group, Sir Ralph also boasts directorships of Standard Chartered, Schroders and ASW Holdings.

He will become M and S's sixth non-executive director. The board also has 15 executive directors and a company secretary.

OBITUARY

Sir James Stirling: great British architect

JAMES STIRLING, the internationally famous architect, died suddenly in London yesterday. His schemes always showed an extraordinarily inventive intelligence; the draughtsmanship was distinctive, renowned for Stirling's use of the axonometric view.

The son of a Scottish marine engineer, James Stirling was born in Glasgow in 1926. After war service he completed his architectural training at Liverpool university, a school then unique in the UK for its open-minded attitude to modernist ideas. Stirling became a member of the architectural avant-garde: Le Corbusier's late work was the greatest influence on his early development.

His first partnership, with James Gowan, resulted in several important and influential commissions. But it was the expanding world of higher education in the 1960s which proved a mainstay. Leicester University's Engineering Building (1959-63), a brick and glass tower with glazed workshops, influenced by Stirling's passionate interest in Liverpool's 19th century factories and warehouses, brought him world celebrity.

Practising independently, Stirling built the Cambridge History Faculty Library (1964-67), which consolidated his reputation as the most original talent among British architects. (It soon become notorious, and remains to some extent the rallying point of British anti-modernists.) At the same time he completed residential buildings at St Andrew's University, and the Florey building, a student block for Queen's College, Oxford, last of the series of buildings using engineering brick and industrial glazing.

Stirling Wilford & Associates' design for No 1 Poultry

Stirling joined Michael Wilford to form his second, enduring professional partnership. The 1970s were lean years, but his reputation outside Britain continued to grow. Success came with the magnificent new Staatsgallerie in Stuttgart, the art gallery regarded as the city's architectural jewel.

Important commissions in the US and Germany followed: buildings at Rice University; Cornell University; the Fogg Museum at Harvard; the Berlin Science Centre. In the UK, the 1980s at last gave Stirling his long deserved prominence: commissions for the Clore Gallery at the Tate, built to exhibit the Turner bequest; and the Tate Gallery in Liverpool.

Stirling's death leaves still hanging the tortured question of redevelopment at No 1, Poultry, in the City of London. Stirling himself was always a resolutely apolitical architect, never doctrinaire in his approach. In the profession he was admired as a tireless fighter for the integrity of his schemes, and as an unpompous, unaffected man – a highly influential teacher and mentor to a generation of architects. He revelled in his role as "enfant terrible".

A knighthood, announced in the Queen's Birthday Honours earlier this month, marked his belated recognition in the UK. Charles Jencks, the architectural historian, has called Stirling "the most important architect of his generation".

UK readers may recall with pleasure a recent series of television advertisements which featured two young German businessmen discussing (with English subtitles) the new Rover Sterling car belonging to one of them – a choice causing some anxiety in the firm. Driving into Stuttgart – home of Mercedes-Benz – the anxious colleague is clearly impressed by the car's performance and refinement and, as it pulls up outside the Staatsgallerie, the driver nods knowingly at both car and building, declaring proudly: "Britischer Architekt!"

FT LAW REPORTS

Enforcement case cannot be argued

AIGLON LTD AND L'AIGLON SA v GAU SHAN COMPANY LIMITED

Queen's Bench Division (Commercial Court): Mr Justice Hirst: June 10 1992

A MAREVA injunction freezing a company's assets pending grant of leave to enforce an arbitration award against it will be discharged if there is no good arguable case for enforcement in that the award is a nullity as against the company, the arbitrators having exceeded their jurisdiction by deciding that it was party to the contract out of which the dispute arose.

Mr Justice Hirst so held when proposing to grant an application by L'Aiglon SA (SA) to set aside a Mareva injunction and an order for disclosure of assets obtained against it by Gau Shan Ltd.

[The injunction has since been continued by the judge, on fresh grounds – see next Wednesday's law report. The reasoning based on enforcement proceedings still stands.]

HIS LORDSHIP said the litigation arose out of the award of the Technical Appeal Committee of the Liverpool Cotton Association in favour of Gau Shan against Aiglon Ltd, an English company, and L'Aiglon SA, a Swiss company.

On May 1 1992 Mr Justice Gatehouse granted an application by Gau Shan for Mareva injunctions, including an order for disclosure of assets, against both Ltd and SA.

The present application was by SA only, to set aside the Mareva and disclosure orders as against it. Gau Shan counterclaimed as against SA under section 26 of the Arbitration Act 1950, for leave to enforce the award in the same manner as a judgment.

The dispute arose under a contract of sale of 3,000 tonnes of Benin raw cotton, in which the sellers were described as Ltd, and which was signed on behalf of Ltd and Gau Shan.

SA's case for discharge of the Mareva and the disclosure order was, *inter alia*, that Gau Shan were unable to show a good arguable case on the merits because there was no enforceable award against SA, since the Technical Appeal Committee did not have jurisdiction to determine whether it was party to the sale contract.

The contract specified Gau Shan as buyers and Aiglon Ltd as sellers. Signatures were annexed under the respective headings "Sellers – Aiglon Ltd" and "Buyers – Gau Shan Co Ltd". In the top left-hand corner of the contract appeared the words "L'Aiglon Ltd".

The contract contained a *force majeure* clause which provided that sellers should not be responsible for non-delivery due to third parties' faults.

No delivery took place, and Gau Shan claimed for non-delivery. The defence was that the *force majeure* clause applied due to the fault of third parties.

The matter came before first tier arbitrators of the Liverpool Cotton Association.

Their award was headed as being in an arbitration between Ltd and Gau Shan, by a contract between Ltd as sellers and Gau Shan as buyers. The award was in Gau Shan's favour. The *force majeure* defence was rejected.

In their appeal submission in support of the *force majeure* defence, the sellers relied on a contract between SA and a third party for the purchase of cotton giving rise to the *force majeure* defence. The parties were described in the text as Ltd and Gau Shan, though in the title Ltd's name was preceded by L'.

The counter submission on appeal, in relation to the *force majeure* defence, stated "L'Aiglon Ltd are not a party to the contract in dispute" and referred to Aiglon and L'Aiglon as related companies.

It was common ground that "L'Aiglon Ltd" referred to SA, and "Aiglon" referred to Ltd. Up to that stage in the proceedings, Ltd had been treated by both sides as sellers and were the only parties on their side to the arbitration.

In paragraph 8 of their reply submissions, in the context of *force majeure*, the sellers stated "Sellers are in fact Aiglon Ltd. For the purpose of this appeal there is no real distinction between the two companies. Any purchases by L'Aiglon SA would be utilised for the sales by Aiglon Ltd. The two companies are under the same control".

As a result, Gau Shan put forward supplemental appeal submissions saying the sellers had stated that no real distinction was to be drawn between L'Aiglon SA and Aiglon Ltd, and submitting that both companies should be made parties to the arbitration.

The solicitors for SA sought to render submissions to the appeal committee with regard to the appellant's identity. The committee considered that the evidence already presented set out the position.

The committee's award was issued on February 12 and was headed "an arbitration between Aiglon Ltd/L'Aiglon SA" and Gau Shan.

It stated "sellers are in fact Aiglon Ltd. For the purpose of this appeal there is no real distinction between the two companies".

The award was against both Ltd and SA.

Mr Colman submitted that for the purposes of a Mareva injunction, the criterion of a "good arguable case on the merits" should be applied.

Mr Milligan submitted that was putting the test too high. He relied on *Nimenia [1983] 1WLR 1412,1417* where Lord Justice Kerr said "a 'good arguable case' is no doubt the minimum which the plaintiff must show in order to cross the 'threshold' for the exercise of the jurisdiction".

He submitted it was sufficient for the plaintiffs to establish that their case on the merits was "better than nothing".

That was rejected. A good arguable case test on the merits was the correct test, as Lord Justice Kerr made clear in referring to its being the "minimum" the plaintiff must show.

Mr Colman submitted that by no stretch of the imagination could the appeal committee have had jurisdiction to determine whether SA were party to the sale contract, so that the award against SA on the footing that they were contractually subject to the arbitration was a nullity *(Duke of Buccleuch (1870) 5 Exch Cas 221)*.

He submitted that vitiated the whole award against SA.

Mr Milligan accepted that the principle was sound, but submitted it was irrelevant in the present case. He contended that in considering the application for enforcement of the award under section 26, it was for the court to decide who were parties to the contract and therefore to the arbitration, and that the arbitrators' decision on that topic was irrelevant.

He said it was necessary under section 26 for the court at this juncture to evaluate the underlying evidence, and to decide who were the sellers under the contract.

That interpretation of section 26 was not correct.

The section gave the court power to enforce an award on an arbitration agreement in the same manner as a judgment. The detailed procedure was prescribed by Order 73 Rule 10.

It was common ground that the arbitrators exceeded their jurisdiction in deciding that SA were party to the contract. That part of their award was a nullity.

There was therefore no award to enforce so far as SA were concerned, and it was no part of the court's function under section 26 to salvage it by considering the issue as to who was party to the contract.

Mr Milligan could not invite the court to enforce the award against SA, when SA only became party to it because the arbitrators chose to determine an issue which they had no power to determine. It was not open to the court to embark on an investigation of the merits to see if they came to the right conclusion.

Mr Milligan's argument on this point was rejected in principle, so his argument on the facts became academic.

His analysis of the evidence hinged essentially on paragraph 8 of the sellers' reply.

That paragraph was directed solely to the *force majeure* issue and suggested that for that purpose there was no real distinction between the two companies. There was no suggestion in it that SA were also parties to the contract. It followed that the court would have been against Mr Milligan on the evidence.

There was no good arguable case on the merits in support of the section 26 application against SA, and the whole foundation of the Mareva and disclosure orders against SA disappeared. The court proposed to set them aside insofar as they affected SA.

For SA: Anthony Colman and Graham Dunning (Weightman Rutherfords, Liverpool).

For Gau Shan: Iain Milligan QC and Andrew Baker (Middleton Potts).

Rachel Davies

Barrister

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Yes, the recent court ruling stung. While the jury may have ruled that AMD has lost the rights to use Intel microcode for our 287 math coprocessor, it was hardly a knock-out punch.

"The *Verdict* Has No Effect Whatsoever On The Am386™ Microprocessor Family."
– W.J. Sanders III, CEO, Advanced Micro Devices

This recent verdict can in no way contradict February's arbitration ruling from retired Superior Court Judge J. Barton Phelps, which was upheld by the California Superior Court. That ruling awarded AMD a permanent royalty-free license to manufacture and sell, without legal harassment from Intel, its family of 386 microprocessors with all the intellectual property rights – including the microcode.

Now, when computer users demand the fastest 386 PCs, the computers they buy run on Am386 CPUs. Our chips enable the longest battery life for portable computing. And by bringing competition to the 386 microprocessor market, AMD has liberated computer users from monopolistic pricing.

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"AMD Will Be A Major Force In The 486 Market In 1993."
– W.J. Sanders III, CEO, Advanced Micro Devices

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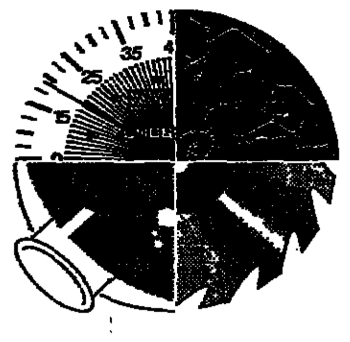
Throughout this decade and into the 21st century, we'll deliver to our customers the most advanced products, in volume, at the most competitive prices.

Advanced Micro Devices

Worth Watching · Paul Taylor



Tasteful discovery excites speculation

It may soon be possible to modify a person's sense of taste, or even to restore it when it is lost or damaged as the result of illness.

The Roche Institute of Molecular Biology in Nutley, New Jersey, funded by the Basel-based Hoffman-La Roche pharmaceuticals group, has made a breakthrough in understanding how the sense of taste works. The research team has discovered and cloned a protein which is only found in taste cells. The new protein is a taste-specific (gustatory) member of a gene family known as G-proteins which play a crucial signalling role in several types of cells including those in the brain, eyes and heart.

Potential applications include the development of novel taste modifying agents and medical uses. Loss of the sense of taste is common after some illnesses and sometimes occurs as a side effect of drug or radiation therapy. Hoffman-La Roche: Switzerland, 61 688 8888.

Lasers bring home fibre optics closer

Fibre-optic networks promise advanced home services such as dial-up films and high definition 3-D video, as well as futuristic services like consumer retailing using virtual reality techniques.

The main obstacle to fibre links for home and office has been the high cost of the optoelectric transmitter modules, units about the size of a postage stamp which combine a laser and microelectric circuitry.

Bell-Northern Research, the joint venture R&D subsidiary of Canada's Northern Telecom and Bell Canada groups, has developed a low-cost semiconductor laser smaller than a grain of salt.

It emits a column of light which makes it easier to connect to optical fibers and also drastically reduces costs. BNR: Canada, 613 763 5342; Northern Telecom Europe: UK, 0628 812190.

Pixels promise better image

High resolution digital cameras are now an essential tool in medical analysis, microscopy, non-contact measurement and precision testing in industrial research and production.

However, these cameras leave spaces between each pixel - meaning that a computer has to estimate the image within these "dead" areas. Now Kodak has launched the 'Megaplus' camera which is designed to capture high resolution 1320 by 1035 pixel digital images. Uniquely, each square pixel is contiguous with its neighbour, ensuring full image accuracy.

One hundred per cent image coverage is vital for areas like non-contact measurement of electronic components, chemical structures or parts of the human body too sensitive to be touched. These measurements often require microscopic accuracy which can only be delivered by total image coverage and capture. Kodak US 619 535 2908; UK,0442 61122.

Computers display cunning adaptation

For the international traveller packing a portable computer, few things are so infuriating as finding that the plug on the end of the modem cable will not push into the hotel telephone socket just when you want to access the home office database.

Surrey-based Impactron has come up with a solution. The International Travel Kit is a set of adaptors which allow a BT-approved modem to be connected quickly and reliably to almost any phone network. (A similar kit is available for those with US-style modem plugs.)

The kit, which costs £95, contains adaptors for more than 29 countries, including the EC, Japan and the US. The kit has an adaptor with crocodile clips "enabling access to be made directly into a convenient wall box." Impactron:UK 081 398 8522.

New era looks to mind drugs

In the second article of a series on drug research, Clive Cookson outlines treatments for mental conditions from anxiety to memory loss

The pharmaceutical industry has an abysmal record in treating disorders of the brain and nervous system. While new drugs have transformed the outlook for people suffering from infectious illnesses, heart disease, and gastro-intestinal problems, most psychiatric patients depend on medicines discovered several decades ago.

Current treatments for mental conditions, from mild anxiety to severe psychosis, emerged during the "black box" era of drug discovery. Doctors observed that they relieved symptoms – often poorly and unpredictably – but pharmacologists had no idea how they worked. For the most serious problems – degenerative brain diseases such as Alzheimer's – there is still nothing that really works.

The outlook, however, is much brighter, as scientific discoveries about the chemistry and biology of the brain find their way into new drugs. The ones being introduced during the 1990s are based on an understanding of neurotransmitters (chemical messengers which send signals between cells) and receptors (protein molecules on the cell which receive the signals and initiate specific biological responses). After the year 2000, there is the prospect of far superior treatments based on the genetic processes involved in mental disorders.

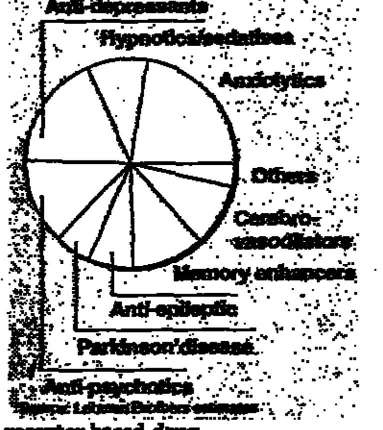
The best known neurotransmitter is 5-HT, also called 5-hyroxytryptamine or serotonin, which is active not only in the brain but also in other parts of the body. It is associated with several types of receptor, each giving a different biological response. The pharmaceutical industry is developing drugs to interact with each specific type, as an agonist to stimulate the receptor or as an antagonist to block it. Glaxo of the UK has been investigating 5-HT systems for almost 20 years and expects a spectacular payback from two drugs: sumatriptan and ondansetron.

Sumatriptan (trade name Imigran) is the first effective treatment for migraine, the intense recurrent headache suffered by at least one adult in 12. It was launched last year as an injection and is being introduced in the UK this month in more convenient form as pills. With sumatriptan ahead of competition, its potential sales are huge – more than £1bn a year – if it can overcome doctors' fear of side effects.

Sumatriptan is an agonist for the 5-HT1 category of receptor, stimulating the uptake of 5-HT in the cranial blood vessels. That reverses the swelling which triggers a migraine attack. Glaxo had hoped sumatriptan would have no effect elsewhere in the body but experience shows that some patients feel tightness in the chest after injections. That is presumably because blood vessels elsewhere in the body contain a few of the same 5-HT1 receptors. Glaxo says sumatriptan's side effects are insignificant for healthy people but they show how difficult it is to make a selective receptor-based drug.

World central nervous system market

1991: $11.5bn



Ondansetron (Zofran) is an antagonist for a different receptor type, the 5-HT3. It was launched two years ago as an anti-emetic to prevent nausea and vomiting induced by cancer therapy, but Glaxo is now carrying out clinical trials with ondansetron for a range of psychiatric conditions including anxiety, schizophrenia, addiction and age-associated memory impairment.

Glaxo researchers are understandably cautious about proclaiming ondansetron to be a psychiatric wonder-drug. They blanch when outsiders talk of it as a potential "smart drug" which could improve everyone's memory.

Mike Tyers, pharmacology director for Glaxo Group Research, says the 5-HT3 receptors on neurones (nerve cells in the brain) "seem to be there to control things when they go wrong." When everything is working properly, "they are fairly silent." If so, a 5-HT3 antagonist such as ondansetron may help to restore the balance in several disorders, without side-effects.

Another group of new drugs based on the 5-HT system is leading to improved treatments for depression. The specific serotonin re-uptake inhibitors (SSRIs), as they are known, increase the low 5-HT levels in the brain which are associated with many forms of depression.

Eli Lilley of the US is already selling more than $1bn a year of its pioneering SSRI, fluoxetine (Prozac) launched in 1988. In hot pursuit is a second generation of SSRIs led by paroxetine (Seroxat), which was developed jointly by Novo Nordisk of Denmark and SmithKline Beecham, the Anglo-American group.

SSRIs have fewer side effects than the "tricyclic" drugs which have dominated antidepressant treatment for 30 years. Yet SSRIs still leave much to be desired: they take at least two weeks to relieve depression and they fail to work in about one third of patients. That may reflect partly the poor quality of clinical diagnosis in depression and other non-acute mental disorders.

Some scientists believe that all forms of depression ultimately work through a common biochemical pathway. If they are right – and not everyone agrees with the theory – it may eventually be possible to find a fast-acting drug that will help anyone who is clinically depressed.

The greatest neurological challenge for pharmaceutical research is to find a cure for the degenerative brain diseases which lead inexorably to dementia and death. The most prevalent is Alzheimer's, which affects as many as 20 per cent of people over 70.

The search for an Alzheimer's treatment has led to a new class of drugs, the nootropics, developed to enhance memory and other cognitive functions. The first generation of nootropics aims to increase the amount of acetylcholine in the brain. Alzheimer's patients have a marked deficit of this neurotransmitter.

Most of the Alzheimer's drugs developed recently work indirectly by inhibiting an enzyme called cholinesterase which breaks down acetylcholine. They include piracetam from UCB of Belgium; oxiracetam from SmithKline Beecham; tacrine from Warner-Lambert of the US; and physostigmine from Forest Laboratories of the US. Although they have shown promise in clinical trials, the manufacturers have not yet produced evidence strong enough to convince the US Food and Administration to licence any of the drugs.

Du Pont Merck, the pharmaceutical joint venture between Du Pont and Merck of the US, has a promising anti-dementia drug now in late clinical trials which works in a different way. It acts directly to stimulate the release of acetylcholine and other neurotransmitters in the brain. The drug (chemical name linopirdine) is noteworthy too for its unusually vivid and appealing trade name – Aviva.

However none of these memory enhancing drugs, even Aviva, can do more than temporarily reverse or slow down the mental degeneration that is characteristic of Alzheimer's disease. None prevents the build-up of tangled plaques of amyloid protein, which progressively destroy patients' brains.

The best long-term hope for curing progressive dementias is to identify the genetic mechanism responsible and then develop drugs to block its effect. In the case of Alzheimer's, a fault in a gene coding for amyloid precursor protein (APP) seems to be responsible. In a few families, this is inherited but it is more often caused by environmental factors.

Many pharmaceutical researchers are now working on long-range projects to block APP, though they are hampered by the fact that there is not yet a good animal model for Alzheimer's. Athena Neurosciences of California is one of the biotechnology companies furthest advanced in this area.

More futuristic still are ideas for repairing brain damage by growing new nerve cells. That does not normally occur in an adult brain but scientists are accumulating evidence that selective regeneration could be achieved by removing some of the genetic factors that inhibit the process.

The series will continue next month by looking at asthma drugs.

Fine art/Patricia Morison

Women's view of Weimar

An excess of candour can be bad for one's health. Be sure, then, that there is a reason why your reviewer will admit that she previously knew the work of only one artist, Käthe Kollwitz, in the major exhibition of German art in the 1920s and '30s now on show at the Leicestershire City Museum and Art Gallery.

Largely made up of loans from German museums and private collections, *Domesticity and Dissent* is a highly unusual exhibition. It features prints, paintings, photographs and sculptures by no less than 26 artists associated with Neue Sachlichkeit, or New Objectivity – the realist movement dominated by the figures of George Grosz and Otto Dix.

No one interested in art and society in the Weimar Republic should miss *Domesticity and Dissent*. Two individuals deserve credit for making this ambitious venture succeed – which is not to overlook a bold first step into sponsorship by Hörmann UK Ltd, who make garage doors. The idea for the exhibition was put up by Marsha Meskimmon, an American postgraduate student. Leicester is already well-known for its collection of early 20th-century German art, and Meskimmon found a ready supporter in Amanda Wadsley, the museum's fine arts curator.

Meskimmon wrote hundreds of letters to German museums and collectors, then went dredging through their records and the public archives in search of information about 26 artists she had selected for the show. Reunification came a little late in the day, but it certainly helped. Many paintings have been loaned from museums formerly in the East, hence some atrocious frames and the poor state of conservation of certain works.

But with Hedwig Huschke, for example, the determined Ms Meskimmon drew a blank. The public gallery at Weimar has lent two paintings by Huschke; a view of village-houses near Weimar (1924) and a large, quiet-toned yet arresting self-portrait (1932). Now in the case of a 15th-century painting, it is never a surprise to find nothing is known about the artist. A scholar dubs the artist Master of the Man in Striped Hose, and suddenly he exists. But in the century marked above all by the Triumph of Bureaucracy, it is a shock to find an artist's catalogue entry stating "no biographical information available." *Huschke* existed, but who was she?

By now, of course, attentive readers will have smelt a rat. The subtitle to the exhibition is "The Role of Women Artists in Germany 1918-38." Which, of course changes the whole picture and lets me, and I dare say you too, off the hook.

Small wonder that, except for Kollwitz, none of these *women* artists was selected for the Royal Academy's 1985 conspectus show of German 20th-century art. More tellingly, none of them was shown at the 1978 Arts Council exhibition which for the first time put Neue Sachlichkeit before the British public. Gerta Overbeck and the Jewish artist Lea Grundig were merely names in the text.

So, on one level, the Leicester exhibition is a particularly well-researched example of feminist art-history managing to salvage women artists from *l'oubli*. It is amusing to find that Whitney Chadwick's *Women, Art and Society*, published only two years ago and billed as a "comprehensive" account of women's involvement in the fine arts, also came up only with Kollwitz, plus Paula Modersohn-Becker.

One of the best things in *Domesticity and Dissent* is the self-portrait bronze made in 1936 when Kollwitz was nearly 70 – the year in which she was unofficially banned from exhibiting by the Nazis. Obviously it was tempting to include this great artist who has come to enjoy cult status. However, she makes an odd member of Neue Sachlichkeit, and what gives *Domesticity and Dissent* its cogency is the focus on the contradictions, ironies and undoubted achievement of these women realists.

Central to the Neue Sachlichkeit tendency was the image of the artist as a man of unflinching vision, focusing his lens on whatever was banal, repulsive, cruel. We think, of course, of Grosz and Dix, of their shocking images of prostitutes and cripples. Many artists of Marxist and anarchist sympathies wanted to flay bourgeois society in their work, to express sympathy for the sufferings of the industrialised proletariat.

Traditionally, women artists were expected to prefer domestic images. But in an era when everyone was talking about the problem of the New Woman, who had the vote and campaigned for abortion, many women artists naturally embraced the cause of public "dissent". There are images of domesticity. However, it is a home which is a place of suffering, where poverty is least visible yet most cruel.

In Lea Grundig's etchings for the "Women's Life" series, a child is dead, a mother sits like a prisoner and the streets are for women a place of exclusion, gazing at consumer goods in shop windows. "A Children's Playground at Night" is a place beneath smoking factory chimneys where men and women make love on the benches: in a Grosz scene, we would know the women were prostitutes, but here, both sexes are victims.

However, there is a great variety in the work of these artists. Grete Jürgens's portrait of a little girl represents another facet of Neue Sachlichkeit, the nostalgia for Biedermeier sweetness. In Eva Schulze-Knabe's heroic self-portrait, there is conscious defiance of the anti-female stereotype which kept women – and women-artists – in their place. Other personal "discoveries" I earnestly hope to be seeing more of include the sculptors Lucie Prussog-Jahn and René Sintenis, and the painters Gerta Overbeck and Kate Diehn-Bitt (there is a fascinating neo-Renaissance self-portrait).

Domesticity and Dissent ends on the July 5. However, I am told there is a "90 per cent" chance it will transfer to the Kelvingrove Museum and Art Gallery in Glasgow. I hope so: this is an exhibition after which our view of German art of the interwar years ought never to be the same again.

Leicestershire Museum and Art Gallery (0533-554100). Exhibition sponsored by Hörmann UK Ltd: additional support from Goethe Institut.

Eva Schulze-Knabe's self portrait of 1929 in the 'Domesticity and Dissent' exhibition at the Leicestershire Art Gallery

Music in London

Michael Nyman

The London Opera Festival, running throughout June, is currently presenting an evening of Michael Nyman's music at the Shaw Theatre. In the first half the Endymion Ensemble, unconducted, play suites of the music Nyman has written for films by Peter Greenaway: *The Draughtsman's Contract, Zed and Two Noughts* and *Drowning by Numbers*.

The second half affords the premiere staging (by David Meyer) of an operatic work which Nyman has derived from a television film in which he was involved as composer and more: *Letters, Riddles and Writs*, a portrait of Mozart, with a text drawn from documentary sources by the film's director, Jeremy Newson.

I found the first half quite hard to take. The ensemble is amplified (not very skilfully), and it comes at one with a painful punch in the ear. Nyman's minimalist-repetitive-rhythmic style has brightness and felicity, often a seductive catchy charm. He is ingenious in spinning his own pop-variations out of themes and motives from music of the past, Purcell's, say, or Mozart's.

A piece like *In Re Don Giovanni* (not played at the Shaw Theatre), based on Leporello's "Catalogue Aria" is so unforgettable that the original now sounds as though Mozart had allowed himself to be over-influenced by Nyman. But the raucousness of Nyman's scores and the jigging motions they seem to require from their performers – bows fly up and down like shuttles, trombone slides work like pistons, bodies hippy-shake-shake – can be a mite off-putting. The ensemble on Wednesday night, lit in cool and sexy fluorescent hues, looked just like a busy sewing machine.

The chamber opera, half an hour long, featuring only two singers (and the Endymion Ensemble), was a witty and haunting investigation of Mozart's relationship to his father when it began life as the first of six *Not Mozart* films, devised by Annette Morreau and shown (five of them, at least) on BBC 2 at the end of the 1991 bicentenary year.

Nyman has altered it considerably for stage presentation, not as far as I could tell for the better, but one could tell little from this poor account of the piece. The *mise-en-scène* – a spread of manuscripts, a rising candle-chandelier, a daubed curtain with an inset window – was dull to adequate. Counter-tenor Jonathan Peter Kenny as Mozart was unsure of himself, and bass Martin Nelson in the triplicate role of father Leopold, Sarastro and the critic Naegli thoroughly incoherent. Ute Lemper, the original Wolfgang, was sorely missed, as was a conductor to keep the singers at their places. The ensemble, heard from behind the curtain and on loudspeakers inside the auditorium, was *little more than a throb of* raw energy.

Nyman's music is entirely adapted from Mozart's. Both composers were garbled to death on Wednesday. Perhaps things will have improved by tonight.

Paul Driver

The Shaw Theatre. Sponsored by The Guardian.

Theatre/Malcolm Rutherford

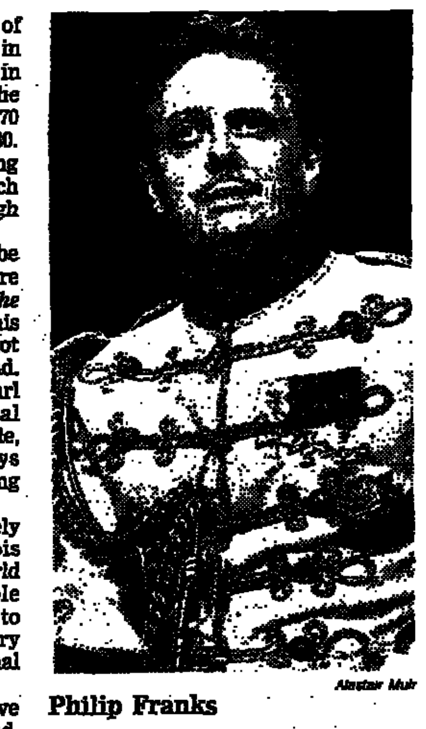
Schippel, The Plumber

C.P. Taylor was a dramatist of prodigious output, better known in Scotland and the north east than in London. When he died in 1981 at the age of 52, he had written more than 70 plays, none of them before he was 30. His reputation since has been rising steadily and his works will be much performed at this year's Edinburgh Festival.

Taylor once said that he would be happy if half a dozen of them were remembered. Whether *Schippel, The Plumber* would have been among his top six is doubtful, since it is not typical of other work that I have read. It is an adaptation of a piece by Carl Sternheim and set in Imperial Germany, 1913. Its potential to dazzle, however, must have been always there. It had a West End run starring Harry Secombe in 1975.

The original *Schippel* was fiercely satirical. It is about bourgeois snobbery on the eve of the first world war and contains some notable grovelling by the middle classes to royal blood. It also sends up that very Germany tendency to seek national harmony through music.

By now, whatever Taylor may have thought himself, the satire is dead, and *Schippel* emerges as a thoroughly enjoyable comedy which occasionally moves into high class farce. The aim of this group of solid bourgeois citizens is to win the crown for singing quartets for the fourth year running. Since one of their members has died, it is necessary to fill the gap.



Alastair Muir

Philip Franks

The choice falls on Schippel, who has a tenor voice of which any German would be proud. But as Schippel is only a plumber, and illegitimate to boot, his inclusion creates social problems.

The solution comes in Schippel being allowed to marry the fetchingly beautiful sister (Kate Buffery) of the leader of the leader of the quartet, though not before the sister has had a romantic fling, which she expects to continue, with the local prince. Being from different ends of the social scale, the prince and the plumber get on perfectly well with each other. As the prince remarks, "It's just like Shakespeare – the prince and the bastard".

Jeremy Sams's production contains a profusion of German music (especially Schubert) and some excellent singing. James Saxon as Schippel is several times enthusiastically applauded for his rendering of the various *Lieder*. That does not often happen to an actor. Saxon can act as well: note his initial entry when he starts to eat the cream cake.

There is also a wonderful balcony scene with conscious echoes of *Romeo and Juliet*: "It's horribly difficult in the circumstances," says Philip Franks as the prince, "to avoid clichés." The set, which includes the balcony and is designed by Lez Brotherston, is outstanding. The moon shines: the whole stage is used to the full and when the top of the grand piano is raised, even that reveals scenic surprises. The opening is a trifle slow; it belies the fun that is to come.

Greenwich Theatre until July 25. 081 858 7755

Ballet/Clement Crisp

Touchbase

The Rambert season continues at the Royalty Theatre with a second programme, whose centre is a much-mentioned novelty for the company by Merce Cunningham. This *Touchbase* is one of the few pieces that Cunningham has made for an ensemble other than his own, though its creation is also shared with the choreographer's troupe. It can not be coincidental that the evening also offers us a chance to see apprentice work by two Rambert dancers – Mark Baldwin and Paul Old – whose debuts are strongly influenced by Cunningham's manner, since his has been a defining aesthetic for Rambert during recent years. What is ironic is that these disciple creations are so much fresher and more appealing to the eye than the work of the master.

Touchbase is characteristic Cunningham in its disarming lack of obvious structure. The seven dancers go blithely about their business against *the yellow luminosities of Mark Lancaster's* set, with a pair of white gates to mark their comings and goings. They wear disastrous beach outfits – the piece has an out-of-doors feel to it – and various whistlings and clankings are made by Michael Pugliese's score, which only lacks a voice saying "I'm sure there's something wrong with the central heating; it's making the most dreadful noise". The dancers pose and stretch; Paul Old indulges in a vestigial hornpipe; Amanda Britton, Alexandra Dyer, Sarah Warsop and Shelley Baker move beautifully, and the result looks like Cunningham parodying his own most hallowed procedures. The choreography, I gather, was in part "generated" by a computer. Luddites, arise!

Far more enjoyable Mark Baldwin's *Island to Island* and Paul Old's *Still Dance*. The first is a light-hearted, light-footed study in which the dance sometimes looks as if it is being fast-forwarded, so quick and flashing its effects. A sound-track makes faintly Polynesian noises; the movement and the dancers are alert, handsome (in nice, anonymous clothes), and while paying his debts to his elders, Baldwin shows himself his own man as a creator. He treats his dancers felicitously – Sarah Warsop soaring in big jumps; John Kilroy ebullient in step; Jacqueline Jones radiant and contemplative – and the dance has a pristine air. Very touching.

Paul Old's *Still Dance* is performed in silence. Four dancers move quietly, and Old's sense of harmony – a feeling that effects are balanced one against the other; that every action has its counter-action, and every movement its echoing response – gives the choreography a delicate but perceptible architectural order. It is refreshing to watch. The dancing of the company in all three works was exemplary. Lighting was excellent.

The Rambert Dance Company is at the Royalty Theatre until June 27, with varied programmes. Sponsors include Digital Equipment Company and the National Westminster Bank.

Panufnik memorial concert

The programme opened with the first British performance of the Tenth Symphony. About 20 minutes long, this presents a businesslike profile – ideas well organised, orchestral textures clear-headed, the piece as a whole firmly decided not to outstay its welcome. There is an articulate air about its style of composition which might be taken as a feature of Andrzej Panufnik's work.

Since the composer's death in the autumn last year, his music has been left to speak for itself. Panufnik was born and educated in Poland, where he spent his early years deeply engaged in all aspects of that country's musical life. In 1954, however, he moved to England and it was here that he spent his mature years, first as a conductor (with the City of Birmingham Symphony Orchestra), then as composer, becoming knighted in 1991.

For this memorial concert, given at the Barbican Hall on Wednesday, there were two major works new to London audiences still to be heard. The Tenth Symphony, played with that swaggering virtuosity that the London Symphony Orchestra can always bring to 20th-century music, made a splendid opener – a little more than an orchestral showpiece too at the end, where it dies away in pages of some spiritual beauty.

Then we had the first performance of the Cello Concerto, commissioned by the LSO and performed by Mstislav Rostropovich. On an occasion like this one dearly wants to enjoy and admire an important new piece, but for all Rostropovich's characteristically involved playing and what seemed a fine account of the orchestral part under Hugh Wolff, this score simply did not put forward the same individual personality afforded by the symphony.

The concerto is in two movements. With Panufnik's love for geometric forms, they are reflections of each other and each palindromic within themselves. The first is an adagio, which stirs promisingly into life, but then meanders inconsequentially. The second movement is a spiky scherzo and this just seems poised to engage weightier matters in the cadenza, when the orchestra signs off abruptly and it is all over.

There is a limited amount of expressive potential in the concerto, but what there was Rostropovich delivered with his customary, whole-hearted abandon. Even in Dvořák's Cello Concerto, which followed after the interval, there was not a sign of staleness creeping in, however many times the cellist must have played this music in his lifetime. His spontaneity has never deserted him.

Richard Fairman

Sponsored by Technics Hi-Fi

INTERNATIONAL ARTS PREVIEW & EXHIBITIONS

The Bregenz Festival opens on July 21 with a new production of La Damnation de Faust in the indoor theatre, conducted by Vladimir Fedosseyev. Bregenz is otherwise one of many festivals this year to follow a *Spanish theme. Jerome Savary's* large-scale Carmen production is revived on the floating stage.

There will be an adaptation of the Carmen story by the Slovenian National Theatre, a flamenco show at the Theater am Kornmarkt and a concert of Spanish music by the Vienna Symphony Orchestra under Rafael Frühbeck de Burgos *(05574-4920 224)*.

Three major festivals in the south of France – Avignon, Aix-en-Provence and Montpellier – take place over the next month. Avignon (July 10 to August 3) goes Spanish with productions of Le Chevalier d'Olmedo by Lope de Vega and Los caminos de Federico, a composition of Lorca texts. Alain Maratrat's musical Zarzuela! Historia de un Patio transfers from the Vienna Festival, and there is also a French version of Cervantes' Le Siège de Numance and Pasolini's play Calderon (9085 4472).

This year's operas at Aix (July *13-31) are Don Giovanni, The* Rake's Progress and a revival of last year's hit, Britten's Midsummer Night's Dream. But the attractions of Aix lie just as much in the well-planned concert series, which includes short recitals by up-and-coming singers, longer ones by established artists and big choral events in the cathedral.

***There will be a Samuel Ramey* concert, a recital by Dmitri Hvorostovsky, two Monteverdi programmes by Les Arts Florissants under William Christie, and a Mahler and Milhaud concert conducted by Kent Nagano (4217 3400).**

Montpellier, the Radio France festival (July 13 to August 1), devotes itself to off-beat operas, interspersed with a broad mixture of symphonic programmes. Offerings include the original version of Aida, concert performances of *Puccini's Edgar and Franchetti's Cristoforo Colombo*, Edward MacDowell's Second Piano Concerto and Franz Schmidt's Fourth Symphony (6761 6681).

EXHIBITIONS GUIDE

BARCELONA

Pia Almoina Medieval Catalonia: an exhibition divided between three different locations in the Barrio Gotico. Pia Almoina (first building to the left of the cathedral) houses the first section, entitled Genesis of Catalan Romanesque Art. The second part, Between Tradition and Innovation, is housed in the *Old Royal Palace at Placa del* Rei. Part three, The Golden Age, is at St Anne's Church, behind Placa Catalunya. Ends Aug 9

Fundacio la Caixa Sports in Ancient Greece: a guide to the customs, rituals and philosophy of sport in ancient Greek culture, from childhood games and the formal training of school, to the development of the complete *athlete. Ends Aug 9*

BONN

Kunsthalle der Bundesrepublik This new DM130m exhibitions complex opened last week with five different displays which will run throughout the summer. The first is a synthesis of the main developments in modern art, from the end of the last century to the present day, with 150 key *works by 120 artists, all of whom* were rejected or misunderstood by their contemporaries. Pantheon of 20th Century Photography is another historical exhibition, bringing together images by 30 photographers. French artist Niki de Saint Phalle gets a solo show, with a wide range of works displayed inside the building and a further 35 outside. Another retrospective is devoted to the work of Viennese architect Gustav Peichl, who designed the Kunsthalle building, while a major display entitled Global Change confronts the world's environmental problems. Closed Mon

Rheinisches Landesmuseum Turner's Rivers of Europe: an exhibition originally mounted by London's Tate Gallery, *tracing Turner's tours to the Low* Countries, and including sketchbooks and colour studies newly identified and dated by Cecilia Powell. Ends July 5. Closed Mon

CHICAGO

Art Institute Masterpieces from the National Gallery of Ireland: 44 paintings by Mantegna, Titian, Gentileschi, Poussin, David, *Velasquez*, Gainsborough and others. Ends Aug 9. Daily

DUISBURG

Wilhelm-Lehmbruck-Museum Degenerate Sculpture: an exhibition devoted to sculptors who suffered from Nazi persecution. It also contrasts works from before and during the Nazi period by sculptors whose development was *modified by Nazi taste. Ends* Aug 9. Closed Mon

LONDON

Harari & Johns European works of art and Old Master drawings: 16th and 17th century Italian and German bronzes, Italian Renaissance maiolica and Doccia porcelain, Venetian glass, drawings after Renaissance sculpture by Tintoretto and others. Ends July 10 (12 Duke Street, St James's SW1)

Courtauld Institute Drawing in Bologna 1500-1600: an outstanding collection of more than 60 drawings, almost all from private collections and including some recent discoveries. Ends Aug 31. Daily

Tate Gallery Richard Hamilton (b1922), a founding creator of Pop art. Ends Sep 6. Also Turner *and Byron. Ends Sep 20. William* Blake (1757-1827): the apprentice years. Ends Aug 16. David Hockney: Seven Paintings. Ends July 26. Daily

Royal Academy of Arts Summer Exhibition: the world's largest contemporary art exhibition, drawing together some of the finest examples of work by living artists, including *Clemente, Baselitz, Tàpies and* Ellsworth Kelly. Ends Aug 16. Daily

Barbican Treasures from the Collections of the City of London, including a rich selection of 17th century Dutch paintings. Ends July 19. Daily

Hayward Gallery Magritte. Advance booking on 071-928 8800. Ends Aug 2. Daily

MUNICH

Kunsthalle der Hypo-Kulturstiftung Caricature and Satire: 500 years of pictorial comment on contemporary life and politics. Ends Aug 9. Daily

Stadtmuseum Bruno Paul (1874-1968): German interior decoration and architecture between Jugenstil and the Moderns.

The exhibition illustrates the artist's wide-ranging activities as draughtsman, furniture designer, architect and teacher. Ends Sep 20. Closed Mon

NEW YORK

Museum of Modern Art Louis I Kahn: large-scale retrospective devoted to the most important American architect since Frank Lloyd Wright. Ends Aug 18. Also Antoni Tàpies, celebrated Catalan artist. Ends Aug 9. *Closed Wed*

The Drawing Center Guercino: 60 drawings on loan from Windsor Castle, one of the highlights of international celebrations of the artist's 400th anniversary. Ends Aug 1

Metropolitan Museum of Art Korean Ceramics from the Ataka Collection: 114 exquisite works surveying the full flowering of *Korea's ceramic tradition from* the 10th to 19th centuries. Ends July 12.

Also Andrea Mantegna. Ends July 12. Royal Art of Benin. Ends Sep 13. Closed Mon

PARIS

Parc de Bagatelle Henry Moore: a major outdoor exhibition consisting of 27 over life-size bronze sculptures, ranging from *the 1950s to the last great works* of the 1980s, placed in the kind of open-air landscape for which they were intended.

Ends Oct 4 (Bois de Bologne)

Galerie Didier Imbert Henry Moore Intime: 500 works which formed the artist's home environment, none previously seen in public. Ends July 24. Closed Sun (19 ave Matignon)

Le Louvre des Antiquaires *The* Gardens of Baron Haussmann: documents, plans and engravings showing Paris of the Belle Epoque. Ends Oct 4. Closed Mon (2 place du Palais Royal)

Musée Guimet From the Tagus River to the Chinese Sea: ceramics, porcelains and gold brocade bringing back the magic of Portuguese commercial links with the East Indies from 1513 *onwards. Ends Aug 31. Closed* Tues (6 place d'Iéna)

Louvre The Eye of the Connoisseur: Homage to Philip Pouncey. The exhibition commemorates the Old Master drawings expert who died in 1990, and includes drawings by Correggio, Bandinelli, Lorenzo Lotto and others.

Ends Sep 7. Closed Tues

Grand Palais The Vikings. *Ends* July 12. Closed Tues, late opening Wed (ave du General Eisenhower)

SPOLETO

Palazzo Racani Arroni Gustave Moreau (1826-1898): a major exhibition devoted to the French Symbolist. Ends Sep 6

WASHINGTON

National Gallery of Art Art of *the American Indian Frontier*: 150 objects produced by Woodland and Plains Indians in the 19th century. Ends Jan 24. Dürer to Diebenkorn: 114 recent graphic art acquisitions, including works by Holbein, Goya, Gainsborough and Caspar David Friedrich. Also Käthe Kollwitz (1867-1945). Ends Aug 16. Ernst Ludwig Kirchner, *German expressionist painter*. Ends Aug 16. Jacques Callot: etchings and engravings by the early 17th century French printmaker. Ends Sep 7. Daily

FINANCIAL TIMES

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Friday June 26 1992

Calm nerves in Lisbon

IT WOULD not be surprising if several of the EC leaders assembled in Lisbon today caught themselves wishing they were somewhere else. At their last meeting, in Maastricht, they produced the Treaty on European Union. That left two big issues to be discussed in Lisbon: the budget for the next five years, and the enlargement of the Community. But the Danish people's rejection of their earlier handiwork has confused the debate on both issues, and has helped to thrust another – subsidiarity – on to the table. In addition, they must be well aware that this is their last chance to come up with an agreed position on agricultural subsidies which could form the basis of a needed breakthrough in the Uruguay Round at or before the G7 summit in Munich the week after next.

All four issues are important and difficult. The budget is so divisive that the Portuguese presidency has decided to seek agreement at this meeting only on general guidelines rather than specific figures. But Spain threatens to veto the opening of enlargement negotiations unless it gets the full "Delors Two" package, designed to double the receipts of the poorer members by 1997.

In support of their position the Spaniards cite the agreement reached at Maastricht, that the budget must be agreed before enlargement negotiations can start. That is correct, but does not mean it is necessarily in Spain's interest to block agreement by insisting on a figure its partners are unwilling to accept. Nor, however, is the British and Dutch opposition to any raising of the ceiling before 1997 likely to prove tenable.

Should enlargement talks wait also upon ratification of the Maastricht Treaty? No, say the British, Germans and Portuguese, arguing that Danish fears of European Union can be allayed by the spectacle of fellow Scandinavians negotiating to join that same Union. Yes, say most other member states and the Commission, arguing that it must be clear to the applicants what Union it is they are trying to join.

Meanwhile the Commission is scrambling to make Maastricht more acceptable by offering powers back to the member states. This newfound zeal responds to a widespread feeling, by no means confined to Denmark, that the EC is getting too centralised and interventionist. But, as Mr Jacques Delors and others point out, much of its interventionism has arisen from the anxiety of some member states to make sure that others abide by the rules. Subsidiarity and the single market – both concepts dear to the British heart – are to some extent in contradiction with each other. Too much subsidiarity will make it easier for Germany to ban imports of British lawn-mowers, or for France to subsidise the research costs of its favourite national industries.

The issue is a complex one, and cannot be solved by an impulsive bonfire of EC competences. Nor should the Commission be seen as the only sinner. It is the Council (of Ministers) that makes EC law, and sometimes it is less the powers themselves that are objectionable than the way they are exercised. The least one could ask is that legislation be debated and enacted in public, rather than behind closed doors.

In fact all three issues – the budget, enlargement, subsidiarity – are ones over which the EC can afford to take some time, considering them in conjunction with the Danish problem to which they are all connected. The Uruguay Round is the only really urgent issue.

Put at its starkest, the EC faces a choice between risking the defeat of Maastricht in the French referendum, and risking the collapse of the world trading system through the failure of the Uruguay Round. Of the two, the latter disaster would be the graver.

Helping India

THREE GIANT economies – China, India and Russia – are now engaged in the same task: turning away from central planning and towards the free market. With 40 per cent of the world's population between them, what happens in these three economies is more important for the world's future than almost anything else. All three face huge problems. But all three also possess certain advantages. India's is the possession of a sophisticated, if distorted, market economy.

What India has needed is a government that would stop stopping things from happening. Mr Narasimha Rao's appears to be such a government. It deserves continued, if highly conditional, support from the group of western aid donors meeting in Paris today.

The payments crisis of June 1991, which started off the unprecedentedly deep round of reforms, was, as the government of India's own Economic Survey notes, a reflection of a "loss of confidence in the government's ability to manage the situation". Behind that loss of confidence was India's progressive fiscal deterioration. Its economy grew faster in the 1980s, at some 5½ per cent a year, than it had in the 1970s, but it did so on borrowed money and was, therefore, living on borrowed time.

Fortunately, the new government – under the intellectual leadership of Dr Manmohan Singh, the finance minister – seized the opportunity to introduce not only stabilisation measures, but structural reforms as well. Long needed liberalisation of trade and industrial policies were, therefore, added to a sharp fiscal correction and devaluation of the rupee.

The package was judged worthy of additional external support and this it duly received, notably from the International Monetary Fund and the World Bank. Now the government seeks another $3bn in exceptional aid – $2.4bn from the IMF and the World Bank and $0.6bn from bilateral donors.

Has India done enough to justify continued support? It has. Has it done enough to set India on the sustained high growth path that its people deserve? It has not. Now, in fact, comes the hard part.

The two budgets put forward by Dr Singh have reduced the budget to a projected level of 5 per cent of gross domestic product in 1992-93, but important forms of waste – the fertiliser subsidy, for example – remain. Monetary policy is too loose and, with a poor monsoon feared, inflation may be higher than the people will tolerate.

The financial scandal in Bombay demonstrates the need for still more financial reform, combined with fiercer supervision. No less important are unification of the exchange rate, along with a depreciation to compensate for the lowering of India's excessively protective tariffs. Only thus can India hope for what it needs most: an export miracle rivalling those of countries to its east. In addition, both privatisation and an exit policy for unviable enterprises must be put in train, regardless of the political difficulties.

The challenges are great and the lobbies opposed to the changes – farmers, industrialists and organised labour – are politically formidable. Bringing about radical reforms in a huge, poverty-stricken democracy could never be straightforward. There is already fear that the government is drifting. But there are no realistic alternatives, as the government knows. The west, for its part, should make it clear that it will support reform, but only so long as it is reform that it supports.

As has been true of many other developing countries, it was the threat of default that concentrated the government's mind. For this reason alone, support must not only be conditional, it should also be limited both in extent and in time. India should be given exceptional aid now, but the aim must be for India to stand soon on its own two feet.

Sunday trading

YESTERDAY'S DECISION by the House of Lords on Sunday trading brings welcome clarity. The Shops Act 1950 remains the law of the land unless repealed or declared invalid under the Treaty of Rome by the European Court. Local authorities can seek injunctions stopping illegal Sunday trading without having to promise compensation if the law is declared invalid. If it is, the UK government could be liable to pay compensation to shops for loss of profits on Sunday trading.

That is a wise judgment, because it places responsibility for sorting out the mess over Sunday trading firmly with the government. Ministers can no longer stand back and blame local authorities for allowing the law to be flouted.

Their next step is clear: the Shops Act should be repealed without delay. Sunday trading provides benefits to consumers in convenience and – by making more efficient use of capital – lower prices. A quick bill is needed before the sabbatarians and shopworkers' unions mobilise the opposition. The threat of having to pay millions of pounds of compensation to supermarket groups if the European Court overturns the Shops Act should focus the Home Secretary's mind.

Paul Abrahams examines the issue of shares in the UK pharmaceuticals group

A Wellcome on the doormat

Mr John Robb, chief executive of Wellcome, the pharmaceuticals company, will pack his bags today and head for his native Scotland. Edinburgh will be his first stop on a round-the-world road show, taking in more than 16 cities from San Francisco to Osaka. On his travels he aims to promote the sale of at least 330m shares worth about £3bn.

Mr Lawrence Banks, head of corporate finance at Robert Fleming, the adviser to Wellcome Trust, the charity which currently holds 73.5 per cent of Wellcome, was optimistic about the offer yesterday. "We have been pleased with the level of interest both in the UK and internationally in this first-rate pharmaceuticals company," he said.

In spite of Mr Banks's rhetoric, the issue's success hangs in the balance. Following last week's aborted flotation of GPA, the aircraft-leasing group, the outlook for new issues has clouded over. The prospects for pharmaceuticals groups are uncertain. Between 1985 and 1990 the world drugs market grew on average by 13 per cent a year; industry forecasts put the 1990-95 figure at 9 per cent; the five years after that could see as little as 5 per cent average growth.

Last autumn, when preparations for Wellcome's offer began, Mr Robb's sales task appeared easier. Pharmaceuticals shares were star performers on global markets. Between January 1990 and December 1991, British healthcare stocks, driven by American buying, outperformed the UK market by 65 per cent. Over the same period, American drugs stocks outstripped the US market by 55 per cent.

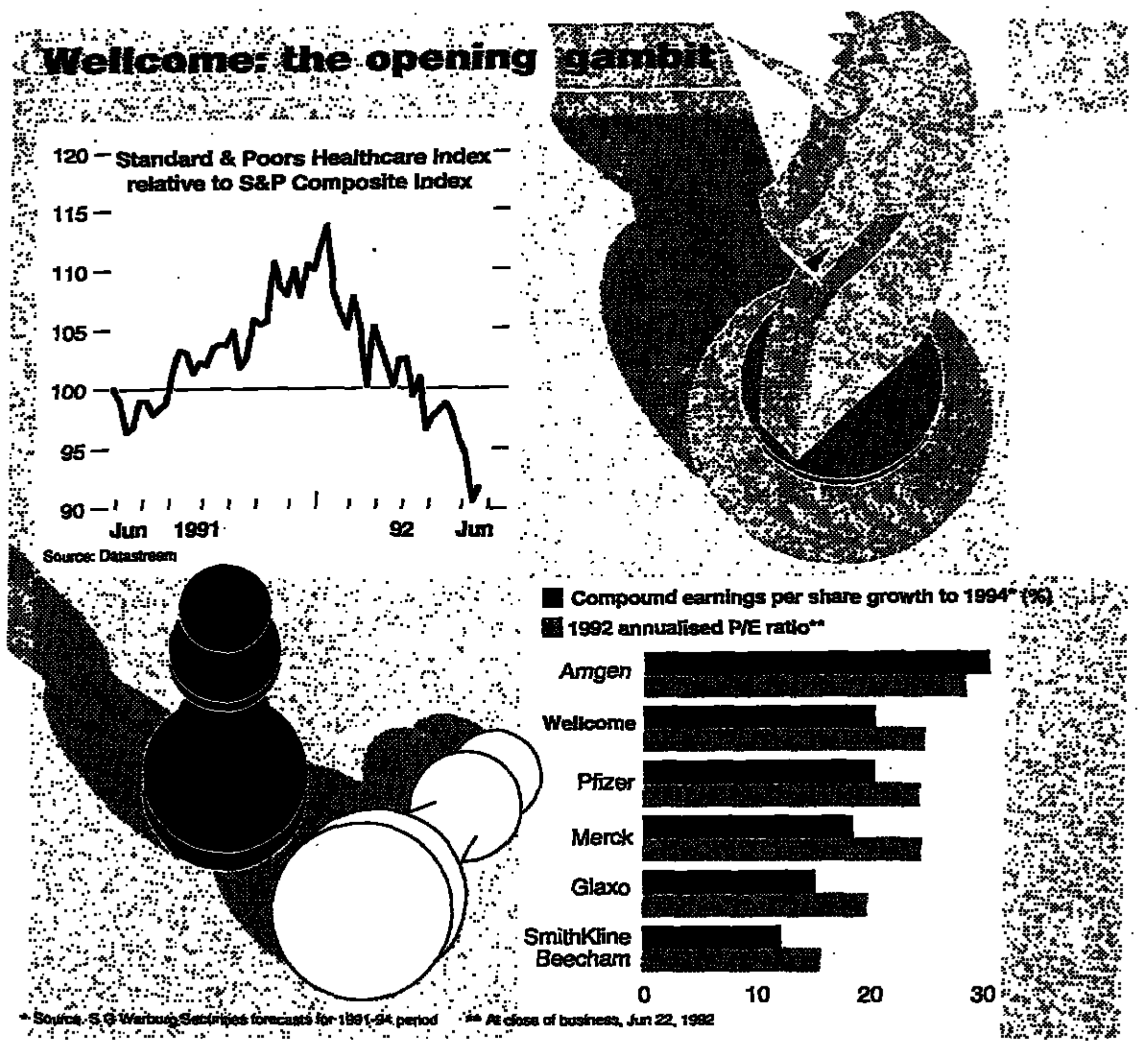
The reasons were clear. Ageing populations in developed countries ensured that demand for drugs continued to grow even during recession. That guaranteed earnings growth far in excess of that experienced by other sectors.

But drugs stocks have now fallen from grace. Since January, US pharmaceuticals shares have underperformed the market by nearly 20 per cent. American investors, noting the apparent upturn in the US economy, have switched from recession-proof stocks into those that perform better during recovery. Wellcome has seen a similar shift in the UK. Its shares have fallen from £11.26 before the issue was announced on March 2 to 914p yesterday.

Investors' enthusiasm has also been dampened by the increasingly hostile environment for drugs companies. Costs associated with the research, development and marketing of drugs are rising fast because drugs must go through expensive licensing procedures in individual countries at the same time. Meanwhile revenues are threatened by worldwide downward pressure on drugs prices as governments struggle to contain ever-growing health expenditure.

Pharmaceuticals earnings have started to suffer. Some US groups had disappointing first-quarter results this year. Shares in Bristol-Myers Squibb, the world's third-largest drugs company, fell 10 per cent on June 2 after it warned that sales growth for the second quarter would be less than 5 per cent.

Against this difficult background Mr Robb must set out his case. First, he must convince doubting audiences that he has adopted the right strategy for Wellcome to escape the twin pressures of rising costs and falling prices; and he must answer misgivings about any perceived company weaknesses.



The most crucial part of his tour will start next Friday when Mr Robb starts his US campaign. At least 80m shares, worth at present about $1.3bn, have been slated for American investors. Morgan Stanley, the US investment bank advising Wellcome, will be charged with the successful selling of such a large volume.

Although the issue is only half of the US's largest public stock offer last month, when General Motors raised $2.14bn, the British company is not widely known in north America. Only 2 per cent of its stock is owned in the US, compared with about 26 per cent of Glaxo, the UK pharmaceuticals group, and about 32 per cent of SmithKline Beecham, the Anglo-American company.

Another problem for Mr Robb's US campaign is that Wellcome's price-earnings ratio is slightly higher than that of Merck, the world's largest drug company and last year one of US investors' favourite stocks.

Mr Steve Plag, pharmaceuticals analyst at County Natwest, the only important UK broker not directly involved in the issue, explained: "On my calculations Wellcome is on a prospective price-earnings ratio of 22, whereas Merck is on 20 and Glaxo is on 18. The question is whether US investors will be willing to buy a stock on a higher ratio than Merck."

Nevertheless, Mr Robb can point to several factors in his company's favour. Wellcome is the fastest-growing of the world's 20 largest pharmaceutical companies. Over the past five years it has enjoyed the highest average annual earnings-per-share growth rate of any big pharmaceutical company – some 30.3 per cent compared with 17.6 per cent for Glaxo and 15.7 per cent for SmithKline Beecham.

In the short term, in spite of difficult conditions, Wellcome's earnings growth looks assured. S G Warburg, the company's broker, forecast in its most recent circular that sales from continuing operations are set to grow at 16 per cent a year over the next three years. Meanwhile operating profit margins over the same period should increase from 24.6 per cent to 29 per cent.

The strongest card in Mr Robb's hand is the company's ability to withstand pricing pressures. During the last six months, sales increased 21 per cent over the same period of 1991. But only 3 percentage points came from price increases. The rest was generated by volume growth.

"There's little disagreement that Robb and his new management team have done an excellent job and that earnings growth looks strong for the next two years," said Mr Plag. "The problem is what happens beyond that. There is a significant risk that earnings growth may start to decelerate."

Mr Plag claimed that the two main motors for earnings growth – the company's sales of less profitable subsidiaries, and Zovirax, the anti-viral treatment – will start running out of steam soon.

Unusually for such an 11-year-old product, Zovirax's sales are still growing fast. But growth is likely to slow in the mid-1990s despite Wellcome's acquisition of licences around the world for Zovirax to treat diseases such as chicken-pox and shingles. The drug's patents expire in Germany in 1993, followed by the UK in 1995 and the US – where 39 per cent of sales are made – in 1997.

The patent expiries could be significant because much of Wellcome's growth derives from Zovirax. Mr Plag estimates the product could account for more than 40 per cent of sales growth next year.

For long-term prosperity Wellcome is dependent upon the development of new products to replace existing earners. The company's strong research base is clearly crucial, and Mr Robb says R&D investment will remain at about 14 per cent of sales for the foreseeable future.

Since joining the company from Beecham, where he was consumer products executive, in 1989, Mr Robb has tried to integrate R&D more closely into the marketing effort. Symbolically, the group marketing operations have been moved to the Beckenham R&D site, providing far closer co-operation between the two divisions.

"Marketing is terribly important," he said. "We used to think if we got the research and development right the products would sell themselves. We have to market ourselves aggressively."

Rather than building up expensive marketing networks, however, the group is turning to co-marketing agreements with other companies. It has initialled deals with Hoechst in Germany, Sigma Tau in Italy and Sumitomo in Japan to help market Zovirax.

Last spring the company conducted the most thorough review of its R&D projects it had undertaken. Its aim was to avoid research on scientifically interesting but commercially fruitless compounds. As a result, numerous products were dropped, leaving resources for fewer but potentially more lucrative drugs, such as Atovaquone, Wellcome's medicine for Aids-related pneumonia.

Mr Robb has also moved to set up clinical trials simultaneously in Japan, Europe and the US for Wellcome's new herpes treatment, known as 256. Previously such trials were carried out consecutively, leading to long gaps between approval in each market. Project teams have been established to anticipate potential delays with the regulatory authorities. Mr Robb's hope is that 256 could be rolled out into the world's three largest market's – the US, Japan and Europe – within 72 months. It took 11 years to obtain all Zovirax's licences.

In spite of Mr Robb's efforts, weaknesses remain. Wellcome's corporate tax rate, for example, is relatively high because it has not moved parts of its manufacturing base to countries such as Singapore and Puerto Rico, which have liberal tax regimes. The group pays 36.5 per cent of its profits in tax, in contrast to Glaxo's 28 per cent and Merck's 26 per cent. S G Warburg said in its circular that its expects Wellcome's tax burden to increase by 1 percentage point this year.

Another concern is Retrovir, Wellcome's anti-HIV drug. Its patent is being challenged by Barr Laboratories, a US generics group which is seeking to market its own version of the drug.

"Wellcome's case is technically strong, but the case will be decided by a North Carolina jury next year," said Mr Plag at County Natwest. "Both Retrovir and Aids are emotive issues and the outcome is by no means certain. If Wellcome loses, the group's earnings growth could fall significantly after 1994." Although the drug has a high name recognition, it represents only 14 per cent of group sales.

Robert Fleming's Mr Banks will have to wait until July 24 when the offer closes to see whether his optimism is justified. As Mr Robb jets round the world his marketing skills are likely to be much in demand. Despite the questions surrounding Wellcome's long-term growth, they are likely to ensure the issue succeeds.

Joe Rogaly

Time-bomb grannies

The government's policy on community care is potentially as damaging as it is little-noticed. It could evolve into a juicy election issue for an alert opposition. The fateful decisions were taken at a special meeting of ministers on Tuesday.

The policy affects all except the very richest of infirm elderly voters, and, potentially, all families with retired grandparents. When Mrs Margaret Thatcher came to office in 1979 there were half a million people aged over 85 in Britain; when Mr John Major next faces the electorate in 1996 or 1997 there will be twice as many. What was decided this week was to remove the power of choice from this great grey army.

Old folk who cannot afford to pay for care, and whose families will not undertake it, will be delivered into the hands of officials. Trained "caseworkers" will decide what is good for them and prescribe it. What? Surely that is wrong. I am afraid not – although it is true that when you consider the results of Tuesday's deliberations you have to shake your head. Perhaps Labour won the election after all? Surely it could not be a *Conservative* cabinet committee that deliberated on Tuesday? Not under the chairmanship of Mr Citizen's Charter Major?

You need to step back to understand what happened. Local authorities stopped expanding the provision of old people's homes before 1979, just as the explosion of the elderly population began. Of necessity, a new system was created. Pressure groups worked on the administrators. What were called "board and lodging allowances" were gradually extracted from local social security officials, a practice formalised under Mrs Thatcher in 1983. Anyone dependent on income support and in possession of less than £3,000 (now £6,000) in capital could get much of the cost of accommodation in a home paid for by the department of social security. The middle classes quickly learned how to impoverish Granny, take the government's money and top it up to meet the cost of placing her in residential or nursing care.

The result was the growth of a new industry. Since 1980 the number of places in private residential homes has more than quadrupled, to over 160,000, according to Laing & Buisson, specialists in healthcare publishing. Meanwhile, the number of local authority places has fallen by 14,500 to 120,000. Since 1987 the number of private nursing home places has risen from 52,000 to above 135,000. Meanwhile NHS long stay geriatric places have risen by a mere 2,000, to 45,000. This new private sector business is just what Tories are supposed to favour. There are a few big players, and a great many mom-and-pop shops. You will have guessed the flaw: Laing & Buisson estimates that about 40 per cent of the revenue is taxpayers' money.

The Treasury wants to hide what it is doing. There is no soppy talk of 'open government'

It is the size of that subsidy that lies behind the move to community care. It has grown from a mere £10m or so in 1980 to over £1.6bn now. I am told that when Sir Roy Griffiths first advised Mrs Thatcher of the need for a change he intimated that it would not save any cash. He saw his new system as a means of improving care. Mrs Thatcher bought the idea because, like the Treasury, she saw it as a means of capping costs. She delayed its implementation because she did not want local authorities to have a hand in administering the system, but gave in when it was demonstrated that all other options were worse. For example, if the NHS took it on it would be harder to decant geriatrics from very expensive hospitals to less expensive homes or the relatively cheap "community".

Mr Major delayed implementation last year because he did not want poll tax bills inflated. Some ministers – among them, it is said, Mr Kenneth Clarke, Mr John Patten and Mr Michael Howard – voiced doubts on Tuesday but the now familiar argument, that all other options are worse, won the day. The health secretary, Mrs Virginia Bottomley, may have won agreement that the transitional costs will be earmarked, so that the recipient local authorities do not spend the money on other things, but her department will not be sure until the minutes are circulated. If there is "earmarking", pressure groups will be able to see how much, or how little, is spent on care for the very old.

The Treasury motivation is simple. It wants to hide what it is doing. There is no soppy talk of "open government" in that department. The present system, which continues until the end of March 1993, is demand-driven. "Community care" will be cash-limited. It will be phased in over about four years, as those on existing grants die off. Local authorities will administer it, but they will be capped. They will have an in-built incentive to employ caseworkers who recommend the provision of "home helps" and meals-on-wheels at a far lower cost than paying for places in residential homes. When they do select homes they will use their purchasing power to drive prices down. It is a political time-bomb.

A high-stakes claim to France's political prize

President Mitterrand's campaign to ratify the Maastricht Treaty is confounding his conservative opponents, writes Ian Davidson

The constitutional revision passed this week by the French parliament is an important boost for President Mitterrand, but it is also much more than that: it is a turning point on which he will be staking his presidency.

It is a boost in two senses. In the first place, it is a decisive step towards the French ratification of the Maastricht Treaty. If ratification gets through the referendum scheduled for the autumn, and if the Danish problem is sorted out, President Mitterrand can claim an appropriately grand achievement to crown his long political career.

At the same time, his campaign for Maastricht is proving a diabolically effective device for wrong-footing his political opponents. Over the past year, the conservative parties have become increasingly confident that they will reverse their defeat of 1988, and win a smashing victory in the general elections next March. The Maastricht debate seriously threatens this confidence, because it strikes them where they are most divided and therefore most vulnerable.

The centre-right UDF group and the Centrist party are wholeheartedly committed to European integration and the Maastricht Treaty; but their Gaullist allies are internally divided, between those who are at best ambivalent about the treaty, and those who are completely hostile.

This division between the Gaullists and their partners has already become a source of disagreement. It is bound to become more intense as France moves from the phase of constitutional revision to the phase of ratification. If it should turn into an open quarrel, as it may well do before the ratification process is over, *it could even prejudice the parties'* ability to work successfully together in the general election campaign.

These conservative divisions, and the near-certainty that they will get deeper, must seem a sweet revenge for President Mitterrand. For more than a year, ever since his calamitous appointment of Mrs Edith Cresson as prime minister, he has been in the doldrums in the opinion polls. Her replacement by Mr Pierre Bérégovoy, the former finance minister, last April has given the government a vital shot of optimism; but President Mitterrand himself is still rock bottom in public opinion.

A year ago, the morale of the regime was so low that some people predicted that President Mitterrand might be forced to resign before the end of his term. Yet his character made it more likely, even then, that he would not give up without a fight, and that he would seek the high political ground to do so.

Maastricht offers this high ground. And with characteristic shrewdness, Mr Mitterrand has organised the procedure and the timetable to exploit the weakness of his opponents to the full. By forcing the constitutional revision through the parliamentary procedure, he has driven the conservative parties to display their widening divergences before the public. The Gaullists have accused their ostensible partners in the UDF and Centrist parties of "collaboration" with the government. The centre-right have retorted in kind, warning that they could not vote with the Gaullists in a future election, and might even campaign against them, if they were to vote against ratification of the Maastricht Treaty.

The division between the Gaullists and their partners is bound to become more intense

There is little doubt that Mr Jacques Chirac, the Gaullist leader, hopes eventually to declare in favour of Maastricht. He still harbours presidential ambitions; he knows that an anti-European label might make him unelectable; in any case, it would be an impossible handicap if he were elected. Yet he has not been able to impose this logic on his party.

On the contrary, his desperate efforts to contain the Gaullists' internal divisions have made it easier for the anti-Europeans to drive the party ever closer to an anti-Maastricht position.

Last week the Gaullists abstained on the revision of the constitution in the National Assembly, but voted against it in the Senate. This week they declined to take part in the proceedings in the joint Congress in Versailles, on the grounds that the the treaty was nul and void, as a result of the Danish "no" vote.

Since the Danish problem almost certainly cannot be resolved before September, this logic ought to require the Gaullists to vote against the treaty in the French referendum. But Mr Jacques Toubon, the former secretary-general of the party, has said that he was opposed to the constitutional revision, but was in favour of the ratification of the treaty. This is a position which it must be quite difficult to explain.

The Gaullists' dilemma has raised new questions about the balance of forces between the conservative parties. In the pre-Maastricht era the Gaullists, as a single party, were more disciplined and therefore stronger than the somewhat diverse assemblage of Liberal and Christian-Democrat parties. Today, it is the UDF and the Centrists which feel stronger and more united. This is partly because they have no difficulty over the revision of the constitution, but also because they have managed at the same time to impose substantive amendments which the government was reluctant to concede.

Some commentators have concluded that the Maastricht debate is opening up the possibility of a sweeping reversal of political alliances; by the time the ratification struggle is over, the conservative alliance will be dead and gone, but the ground will have been prepared for a new pro-European alliance between the Socialists and at least parts of the centre-right.

Such a recomposition of the political scenery seems rather unlikely, at any rate before the general election. The Socialists are probably too contaminated as election partners, and public opinion is clearly poised for a conservative alternative. On the other hand, the final fate of the Maastricht Treaty may well not be resolved before next spring, in which case the European quarrel between the conservative parties will also be alive during the general election.

All this must be deeply satisfying to such a consummate political manipulator as President Mitterrand. The Gaullist party is impaled on its nationalist reflexes, and Mr Chirac is in the process of confirming that he is not in strategic control of his party. For the moment the odds must still be heavily in favour of a large conservative victory in the next general election, but the Europe factor may shorten them dramatically.

Such calculations leave out the Mitterrand factor, however. French public opinion has long been in favour of Europe, and *the polls show a constant margin* of popular support for the Maastricht Treaty. But unless there is a recovery in the president's personal popularity, there is a clear danger that the electorate will decide on the day to vote against Mr Mitterrand, rather than in favour of Maastricht.

It is in this sense that Mr Mitterrand is staking his presidency in his Maastricht campaign. For if the Maastricht referendum were to fail, there is little doubt that he would be morally obliged to resign. The poetic paradox in the drama is that Mr Chirac may be able to maximise the chances of President Mitterrand's resignation, by campaigning against the Maastricht Treaty; but only at the price of reducing his own chances of being elected in his place.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Pace-setters in public sector pay

From Mr R Rench.

Sir, While concurring with everything else which was said, I cannot endorse the statement in your editorial, "Regulating the water industry" (June 22), that "water company chairmen and chief executives – (were) probably underpaid when nationalised".

Ever since they were set up in 1974 to their demise, rather than being the Cinderellas, the water authorities were the pace-setters for executive pay in the public sector – and no more so than in the case of those at the top. And, if one took into account the "perks", the differentials were even more obvious.

Privatising the water authorities did not alter the essential nature of the tasks to be performed. (In fact, at least 10 per cent of former duties were transferred to the National Rivers Authority). With no competitors and a captive market, no entrepreneurial skills whatsoever are required; the job to be done is purely administrative. Comparisons with the ICIs and Lonrhos, etc of this world, where "real business" takes place, are false. The job is certainly no more onerous, and perhaps even less, than that of running a large local authority such as Birmingham or Manchester and, accordingly, remuneration should be similar.

At a stretch, one might have been able to overlook the outrageous pay increases in the water companies if, by some miracle, the previous oft-repeated pledge that privatisation would result in consumers paying lower charges than if the industry remained in the public sector had materialised. But, of course, it has not. It must be the biggest "con" to be perpetrated on the British public since that of Horatio Bottomley of First World War infamy. When will it learn that as far as private monopolies are concerned, not unnaturally the interests of the consumer will always be secondary.

Roland Rench,
8 Minshull Place,
Park Road,
Beckenham, Kent BR3 1QF

IMF not prevaricating over Russian economic reform

From Shailendra J Anjaria.

Sir, Like you, the International Monetary Fund would like to see economic reform in Russia proceeding as rapidly as possible (Leading Article: "Russia and the IMF", and "IMF will advance Moscow $1bn", June 24). I am also glad that you recognise the serious risk of hyperinflation. However, *your criticism of the IMF* for prevaricating shows that you and your correspondent in Moscow, John Lloyd, have been seriously misinformed.

In particular, it is not true that the IMF has insisted on balancing the budget. We recognise the case for some foreign financing of the budget deficit. Furthermore, your claims that the IMF has been insisting that oil prices should be allowed to rise to world market levels this year and that it has been trying to force all states of the former USSR to remain within the rouble area are totally untrue.

The IMF has always understood the reason for the Russian government's wish to *have a gradual rise in oil* prices to world levels over a two-year period, as set out in the government's memorandum of economic policies in February. The Fund's position on the choice of currency is set out clearly in the managing director's speech at Georgetown University in April. The Fund co-operated very closely with Estonia, the first state of the ex-USSR to introduce its own currency.

Finally, the agreement between Mr Gaidar and the managing director last week related to the procedures for speeding up the remaining work and not, as implied by your reporter, to an agreement on a particular programme *which the Fund would support.* Negotiations will soon resume in Moscow with a view to reaching agreement on policies that we could recommend for international support.

Shailendra J Anjaria,
director,
IMF External Relations Department,
Washington, DC 20431

Where analysis on pensions went awry

From Mr Lawless Bethune.

Sir, Reading your editorial of June 20 ("Pensions after Maxwell"), I agreed with much of what you said. The law does need tightening to protect pension scheme beneficiaries from rapacious or dishonest employers. In some places, however, your analysis goes awry.

Take cross subsidy, for example. You attack its use in final salary arrangements, but only a few sentences earlier you advocate it for a compensation scheme. In both cases, surely, risks are being shared and some participants will inevitably subsidise others?

You conclude by suggesting that personal pensions would be the solution. For some people they are, but only rarely is a personal pension an individual portfolio of assets. The overwhelming majority are invested with insurance companies, which pool all the premiums to operate massive cross subsidy.

You have in the past criticised insurers for overselling their products and penalising people who back out early, even through no fault of their own. Is it really the answer to demolish employers' schemes and move millions of employees into insurance policies? Presumably you would also want the civil servants' own scheme switched into personal pensions?

Lawless Bethune,
divisional director,
Godwins,
Briarcliff House,
Kingsmead,
Farnborough, Hampshire

Interest rates' influence on consumption

From Messrs Colin Harte and Alan Doyle.

Sir, Michael Lipton (Personal View, June 24) has a very strange idea of the role of real interest rates in influencing inter-temporal consumption and production decisions. He is absolutely correct when he says that "long-term interest rates in real terms are a classic market signal". Rather than encouraging present consumption and resource depletion, however, they encourage the exact opposite. Which is precisely why they are used as a macro-economic policy measure – to encourage saving rather than consumption.

The example of the Indian farmer is misleading. Faced with high long-term real interest rates, the "fierce arithmetic signal" is to use less capital intensive production methods – appropriate technology in the jargon (which may well encourage lower but more sustainable production) – rather than to go for the high return extractive production path. Only in the short term can it be claimed that high real interest rates will force production of the extractive rather than sustainable variety – and high real interest rates have been around since the very late 1970s.

Colin Harte and Alan Doyle,
WorldInvest,
55 Russell Square,
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How to spot the engineer

From Mr Ralph Sabry-Grant,

Sir, Your readers can be forgiven for not realising that engineers are recognised increasingly at work by their fluency with the appropriate scientific literature and familiarity with computing.

Prof Edge's blue overalls and dirty fingernails (Letters, June *20) might find a place in a* black museum of the 19th century.

Ralph Sabry-Grant,
32 Grange Gardens,
Pinner,
Middlesex HA5 5QE

OBSERVER

Marked loss of face

■ Embarrassment all round at Switzerland Inc as the veil came off a huge new clock marking the central meeting point at Zurich's main railway station.

The 8ft-square clock, which is seen by some 300,000 people a day, sports the bright red logo of Citizen, Japan's leading watch-maker. More galling still, the clock itself is actually Swiss, being made by the pukka Zurich firm of Theodor Beyer. Citizen simply beat its Swiss competitors to claim the choice advertising space.

The country's Federal Railways, which sold the space, protests its innocence. It offered the opportunity to all watch-makers, but the Japanese company was the only one to jump.

Citizen was delighted to have the chance to outsmart its leading Swiss rival SMH, producer of the phenomenally *successful Swatch. which has* been making life miserable for its Japanese competitors on several fronts. It has even undercut them on sales of watch parts in Hong Kong.

Even so, the Swiss contingent will have the home defeat staring them in the face for a good while yet. Citizen's contract runs until 1996, with an optional further three years thereafter.

Cell out

■ Interested in prison visiting? Keen to travel to exotic places? Then the foreign office consular service may be for you.

One of the prime tasks of its officials, says today's report from the National Audit Office, is giving solace to the 2,300 British citizens in foreign gaols. Indeed, all consular staff now receive training in prison-*visiting before moving to* Havana or wheresoever.

Assiduous as ever in assessing the effectiveness of government expenditure, the audit office spoke to 20 Brits imprisoned abroad to find out whether they were satisfied with the quality of consular services. Most appeared happy with the assistance received, though whether this included the provision of files in cakes is not disclosed.

Lights out

■ US columnist George Will's verdict on the British monarchy: "The magic is gone. When the current occupant of the throne is done, they should turn off the lights at Buckingham Palace".

Outside chance

■ If Halifax – "the biggest and getting bigger" building society – really means to break with its past and look *beyond* its own ranks for its next chief executive, there'll certainly be no shortage of candidates.

The upper echelons of NatWest and Midland are littered with executives who have been passed over for promotion, and so would relish a go at running a retail banking business which is more than twice as big as the TSB.

Even so, the last thing the Halifax needs is a dull and boring clearing banker running the works. Apart from *Lloyds Bank's Brian Pitman,* very few of same can pass muster as good at both banking and managing. Far better to follow Abbey National's example and recruit a complete newcomer as it did in Peter Birch, a former managing director of the UK end of Gillette.

Whether the Halifax will actually do so is another question. It hates its reputation for watching what Abbey does, then following suit after a decent interval.

"You should have seen the French trawler that got away"

Site saga

■ You would think Euro-officials had more pressing things to discuss at Lisbon than that old chestnut, the siting of the European Monetary Institute. But the tedious saga has recently taken a fresh turn with the Portuguese apparently inclined to propose Bonn.

The Germans should be terribly grateful – the idea having certainly not occurred to *them*. For instance, the arrival of this wonderful institution might lend some point to the otherwise inexplicable burst of construction that continues apace on the shores of the Rhine – as if Bonn were remaining the country's capital. Why, then, is the German government still churlishly rooting for Frankfurt?

The fact is that a putative European central bank is *actually pretty unexciting stuff* – in terms of job creation and so on – if sited anywhere except in one of Europe's three major financial centres. Euro-decision-making being what it is, the spoilers will probably succeed in creating the worst of all possible worlds *just to ensure their "partners"* get no such leg-up. But, knowing Bonn is not much of a substitute, the Germans are not prepared to give up quite yet.

On the ball

■ If EC eminences at today's European summit see Danish foreign minister Uffe Ellermann-Jensen and Germany's Chancellor Kohl seated side by side with their heads together, it should not be concluded that they are forging some threatening alliance. Quite the contrary.

Ellermann-Jensen, an ardent soccer fan, is taking a pocket-sized TV set with him so as to watch the final of the European football championships between Denmark and Germany. "I'm quite sure Helmut Kohl, who'll be sitting next to me, will be just as interested as I am," he says.

Food of love

■ "Candy is dandy, but liquor is quicker." The American poet Ogden Nash's idea of a seductive diet is far out-calorled by the UK equivalent, just elicited by a Mori poll of 1,200 citizens and published in Taste magazine.

The Brits' list of libido-livening dishes runs to dozens, with oysters topping the ranking and chocolate and ginseng root tied for second. Several others lower down the league, however, smack somewhat of the kinky. Besides garlic, they include milkshakes and margarine.

FINANCIAL TIMES
Friday June 26 1992

BCCI creditors try to block Abu Dhabi offer

By David Waller in Luxembourg and Andrew Jack in London

CREDITORS of the collapsed Bank of Credit and Commerce International yesterday made a last-ditch attempt to prevent the implementation of an agreement between the government of Abu Dhabi, BCCI's majority shareholder, and its liquidators.

Under the provisional agreement, creditors are offered a payment of between $1.2bn and $1.27bn in comparison with BCCI's total liabilities of $8bn. Creditors must also give up rights to legal redress against the majority shareholders.

The approval of the Luxembourg court is required before the settlement can take effect. It was approved earlier this month by courts in the UK and the Cayman Islands.

A final decision will not be reached before next week, following the decision by the court yesterday to postpone further hearings until Tuesday.

In a hearing marked by heated exchanges in French and English, the main opposition to the plan came from the London-based creditors' committee.

"The proposed contribution by the Abu Dhabi parties is inadequate," Mr James Lingard, of Norton Rose, solicitors to the committee, said. He said that the committee was looking for a payment of about $4bn.

He complained that the settlement was being forced on creditors despite the fact that the liquidators had had only limited access to BCCI papers held in Abu Dhabi.

"Until the Abu Dhabi parties make available to the liquidators all relevant papers and witnesses in Abu Dhabi, it is premature for the liquidators to agree proposals which the creditors' committee find unacceptable," he said.

He also complained that the proposed settlement was contrary to the principle of law that all creditors should be treated equally unless they have preferential rights under law. He argued that creditors with individual claims against the bank were unfairly being asked to give up their rights.

An emotional intervention came from Mr Adil Elias, a Florida-based businessman and a member of the creditors' committees in London and Luxembourg. He stood up and denounced the liquidators as acting in the interests of Abu Dhabi and not the shareholders. "I lost all of my money. I lost millions and I've had to sell my home to survive. We ask this court to give us justice."

His lawyer cited a letter sent from Senator John Kerry, chairman of the US Senate foreign relations subcommittee, which is investigating BCCI. The letter, which was sent to the London creditors' committee last week, complained about Abu Dhabi's failure to provide the information it promised to the Senate more than a month ago.

In the letter, Mr Kerry said: "I remain deeply concerned about the impact of a global settlement between the majority shareholders and the liquidators before investigations have proceeded further."

Lawyers representing Abu Dhabi responded heatedly, saying that their clients were co-operating fully with the Senate. The lawyers also rejected any suggestion of wrongdoing on the part of the majority shareholders.

They argued that Abu Dhabi had been a victim of fraud for a number of years and was not itself implicated in the fraud. They urged creditors to opt for the certainty offered by the settlement, rather than the uncertainty which would last for years if the plan did not go through.

They repeated that the liquidators would have access to all documents they needed in order to conduct the liquidation once the agreement was signed. The terms of the proposed settlement were not subject to renegotiation, they emphasised.

EC heads likely to oppose UK over expansion

By David Buchan in Lisbon

EFFORTS by the British government to launch an early start of European Community enlargement negotiations with members of the European Free Trade Association (Efta) are likely to meet strong resistance from the country's EC partners.

The belief of Mr John Major, the British prime minister, that the negotiations need not necessarily await full resolution of the fate of the Maastricht treaty on political and monetary union could well isolate Britain on the issue.

Most of the Community leaders at the summit meeting opening today in Lisbon are expected to support the European Commission's insistence that the treaty should be ratified before any negotiations for other countries to join the EC.

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The final version of the Commission's hotly contested paper on enlargement of the Community clearly states that "the new treaty must be ratified" first. It goes on to say that "the entry negotiations, which could then begin, must be conducted so as to contribute to the reinforcement of the union".

Referring to the neutrality of all four Efta applicants – Austria, Sweden, Finland and Switzerland – the paper says new members "must equally accept and be capable of following the common foreign and security policy which will be elaborated in coming years".

Any country whose constitutional position would prevent it joining other Community states in foreign commitments "would not be able to integrate itself into the union in a satisfactory manner".

The UK government, which takes over the EC presidency from Portugal next week, agrees with its partners that all new members must subscribe to all the goals of the Maastricht treaty.

But, keen to demonstrate the Community's openness to Denmark's fellow Nordic countries and thus to influence Danish public opinion, it wants the Lisbon summit to commit the Community to open enlargement talks early next year, irrespective of the Maastricht treaty's fate.

The final Commission paper drops earlier controversial ideas from Brussels that the Community should adopt more voting by majority in order to prevent decision-making in a larger Community from seizing up.

It also indicates how the summit will probably tackle the diplomatically sensitive question of what to say to non-Efta applicants for EC membership. Countries such as Cyprus, Malta, and Turkey must continue to wait, but the Community "should try with all the means at its disposal to promote their economic development".

As for potential EC applicant countries in central Europe, the Commission says the Community "must now commit itself to preparing them economically, even if their membership only seems possible in a very distant future".

THE LEX COLUMN

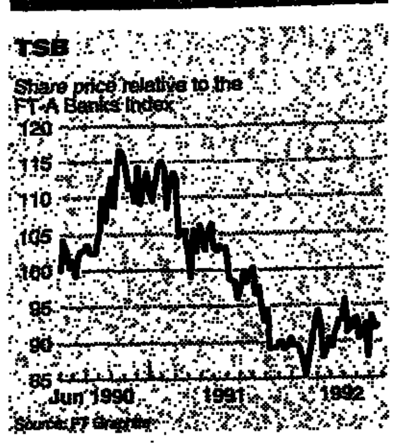
BP's black day

Mr Robert Horton, until yesterday BP's chairman, is indeed blessed with a good brain, as he told Forbes magazine in February. But it was not sufficient to square the impossible circle of maintaining a dividend payment costing over £900m. Earnings this year are unlikely to be much more than half that and, on some estimates, cash is draining away at an annual rate of over £1bn before disposals. His resignation means the dividend cut from this quarter on is almost inevitable.

The question is what level would be sustainable. In the short run there would be an argument for omitting the payment altogether. The resources to pay for it are only being found by slimming the company through disposals and cutbacks on capital spending. The slightly longer run view is not necessarily that dire. BP's earnings are currently depressed by heavy restructuring costs as well as weak refining margins and chemicals markets. In more normal circumstances, it could expect to post around £1bn a year in earnings, even with an oil price of $20 a barrel. A halved dividend would then be comfortably covered about twice.

The initial New York market response to last night's announcement was that a halved dividend is broadly what the market anticipates. The price there of about 210p – 33p below the London close – would imply a yield of somewhat over 5 per cent, close to that of Shell. The company was being pretty cagey last night, however, and the immediate uncertainty is likely to prevent yield funds climbing back in quickly at lower levels. The trouble is that if BP is in for a rough ride, then so is the market as a whole.

FT-SE Index: 2557.3 (+24.7)



TSB

Since TSB's loan book fell by 4 per cent during the first six months of its current financial year, one wonders why it is suddenly going to such great lengths to attract new retail deposits. The emphasis on high yield retail deposits has brought in an extra £1.4bn during the period, but the bank admits that its lending margin has been squeezed and that this will continue. Its claim that the price is worth paying to secure new customers looks a touch dubious. So is its notion that aggressive competition for retail deposits has become an issue for the industry as a whole.

There is a difference between paying interest on current accounts to keep the deposit base stable and actively encouraging customers to switch to higher yielding instruments, which is what TSB now seems to be doing. A possible interpretation is that the bank is seeking new clients for its insurance products. Life and pension premiums show some signs of stagnating. But if that is the motive, the prospects of success seem uncertain at best. If it is not, then it is hard to see how the strategy will enhance income which ought to be TSB's overriding priority.

The pre-tax line may show a swing from loss of £150m to profit of £92m between the first halves of last year and this, but only because of the declining charge for bad and doubtful debts. Operating income is barely changed. Until TSB can alter that its future looks pretty pedestrian, even though Hill Samuel now appears to be through the worst.

Wellcome

You would hardly expect Wellcome's advisers to be other than brimming with confidence at this stage. But the reality is that they face quite a struggle to sell the 330m shares which the company's majority shareholder announced yesterday it is provisionally planning to give up. The difference with the GPA issue is that this one looks reasonably well anchored in London, and can be priced against the secondary market. The similarity is that there may not be ecstatic response on Wall Street.

That could always change with the roadshows, of course, or a reverse in investor sentiment in the next month. But for the moment US institutions seem tired of reading prospectuses – they have been bombarded with initial public offerings this year – and have lost some of their earlier certainty that pharmaceutical stocks would continue to outperform. To be fair, Wellcome's share price has fallen from £11.25p at the time the international offering was announced to 915p last night, while the size of the offer has now been scaled down. But only the next few weeks will tell whether this is enough to assuage the doubters.

Wellcome wins countless plaudits for good management, and has effected the change from uncommercial research establishment to marketing led multinational with considerable success. The challenge will be persuading US investors that the R & D pipeline is sufficient to maintain strong profits growth in the late 1990s when patents from its current world beaters will run out.

BPB Industries

There has been an intriguing two way pull in BPB's shares recently – but by yesterday evening it was advantage to the bulls. In abnormally heavy trading the price jumped 6 per cent as investors reacted to a maintained, albeit only half covered dividend, and a relatively upbeat recovery statement from the new chief executive.

BPB has been guilty of unfounded optimism before – so the market is showing a touching faith in believing that the worst is really now over. True, Europe's big three producers cannot indefinitely slug it out with each other in a quest for bigger shares, and neither Knauf nor Lafarge Coppée will have been making much money out of gypsum at recent prices. That said, one has to wonder whether this year's price increases – 10 to 15 per cent in France and Germany and 8 per cent in the UK – can really be made to stick. The prospects are brightest in Germany where at least there ought to be some boost to volumes in 1992. In France and the UK, however, it is hard to see the industry's financially stretched contracting customers taking any new price discipline lying down. Even a well established building material oligopoly like the UK cement producers are finding margins under pressure again.

The range of current year profit expectations – take your pick between £45m to £70m – reflects the uncertainty. The question is whether an 8.5 per cent yield adequately reflects the risks if the bulls turn out to be wrong.

Horton is ousted as BP chief

Continued from Page 1

ning the company at the top," he said. "It is not about changes in strategy."

Analysts also speculated last night that a factor in Mr Horton's resignation was a boardroom division over dividend policy.

Under Mr Horton, BP has steadfastly refused to cut its dividend despite falling profits and rising debt levels, a policy which initially pleased BP's large institutional shareholders but which, more recently, came to be viewed as short-sighted because it ate into investment budgets.

In the first quarter of this year, BP's profits fell 80 per cent to the point where they did not cover the company's unchanged dividend.

Mr Simon refused to comment in detail on BP's performance in the current quarter for which results will be announced early next month.

"We're fighting a difficult market, but we aim to be extremely competitive," Mr Simon said. He repeated a comment he made at the end of the last quarter: "We didn't see the market any easier."

Last night's changes are likely to prompt analysts to reassess BP's financial prospects. With Mr Horton gone, a dividend cut seems more likely. BP's dividend is only about half covered on forecasts of 1992 earnings. The dividend cost £905m in 1991 and analysts are forecasting earnings of about £450m in 1992.

Earlier this year, Mr Horton was forced to modify his dividend commitment, but reassured shareholders that the payout policy aimed for real growth over time. However, shareholders and analysts believe that BP cannot keep that promise without sacrificing critical spending on exploration and development and damaging the company's future.

"He seemed prepared to jeopardise the company's long-term future just to maintain the dividend," said one large shareholder.

There are also fears that the company's weakening balance sheet will force it to make a rights issue.

Mr Horton's resignation immediately hit BP's share price in New York trading. The shares – traded as American Depositary Receipts in New York – fell $5½ to $48⅞ by mid-session.

Institutional shareholders yesterday expressed satisfaction at BP's decision to split the roles of chairman and chief executive between Lord Ashburton and Mr Simon. In meetings with shareholders earlier this spring, investors had raised the matter with Mr Horton and asked him to separate the roles.

You must be joking: Undeclared US presidential candidate Ross Perot at a press conference where he denied investigating people and accused the Republicans of 'dirty tricks'

Iran-Contra probe of 'highest level' officials

THE special prosecutor in the Iran-Contra scandal during the Reagan presidency said yesterday he was investigating whether officials at the "highest level of the government" broke the law over a 1985 US arms shipment to Iran via Israel, Reuter reports from Washington.

Mr Lawrence Walsh said his investigation was in its final phase, was expected to be done this summer and he had yet to decide on bringing additional criminal charges.

The secret White House operation sold arms to Iran in 1985-86, violating an official US trade embargo, in an attempt to win the release of US hostages held in Lebanon.

Mr Walsh said in a special report to Congress the alleged cover-up involved inquiries by the presidentially appointed Tower commission, Congress and his own 5½-year investigation. He did not name Mr Ronald Reagan in the seven-page report.

But an attorney for Mr Caspar Weinberger, the former US defence secretary who was indicted last week on criminal charges, has said that Mr Walsh's prosecutors asked for any evidence that might incriminate the former president. Officials close to Mr Walsh have also said the Weinberger indictment lays out an alleged classic cover-up scheme designed to protect Mr Reagan from impeachment.

Day of mourning

Continued from Page 1

ros Ghali will meet Mr Nelson Mandela, ANC president in Dakar, Senegal, on Sunday.

The annual Organisation of African Unity summit begins in Dakar the next day.

But South African officials played down speculation of a greater international role.

Mr de Klerk has said a figure of "international repute" would join the judicial commission probing the Boipatong massacre, but officials ruled out further outside involvement in efforts to end political violence.

Efforts to arrange a meeting this week between Mr de Klerk and Mr Mandela before the ANC leader flew to Dakar failed yesterday.

World Weather

		°C	°F
Ajaccio	S	22	72
Algiers	S	25	77
Amsterdam	F	20	68
Athens	S	30	86
Bahrain	S	35	95
Bangkok	F	34	93
Barcelona	S	22	72
Beijing	S	26	79
Beirut	F	26	79
Belfast	F	16	61
Belgrade	F	23	73
Berlin	F	24	75
Biarritz	C	18	64
Bombay	F	31	88
Bordeaux	C	20	68
Boulogne	F	20	68
Brussels	F	20	68
Budapest	F	25	77
Buenos Aires	C	19	66
Cairo	S	34	93
Cape Town	F	13	55
Caracas	C	30	86
Casablanca †	F	22	72
Chicago †	F	13	55
Cologne	C	18	64
Copenhagen	S	22	72
Corfu	S	29	84
Dallas †	T	21	70
Dublin	S	18	64
Dubrovnik	-	-	-
Edinburgh	C	20	68
Faro	S	24	75
Florence	S	23	73
Frankfurt	F	24	75
Geneva	C	18	64
Gibraltar	S	25	77
Glasgow	C	16	61
Helsinki	S	18	64
Hong Kong	S	32	90
Innsbruck	F	19	66
Inverness	R	12	54
Islamabad	F	40	104
Istanbul	S	28	82
Jakarta	R	33	91
Johannesburg	S	14	57
Lisbon	S	22	72
London	S	21	70
Los Angeles †	S	16	61
Luxembourg	S	18	64
Madeira	F	21	70
Madrid	S	25	77
Majorca	S	23	73
Malaga	S	25	77
Malta	S	28	82
Manila	C	34	93
Melbourne	S	13	55
Mexico City	F	28	82
Miami †	C	26	79
Milan	S	23	73
Montreal †	C	13	55
Moscow	S	16	61
Munich	F	19	66
Nairobi	F	25	77
Naples	F	22	72
Nassau	-	-	-
New Delhi	C	35	95
New York †	C	18	64
Nice	S	18	64
Nicosia	S	29	84
Oporto	C	17	63
Oslo	S	23	73
Paris	C	17	63
Prague	F	22	72
Reykjavik	R	7	45
Rhodes	S	30	86
Rio d'Janeiro	F	32	90
Rome	S	22	72
Salzburg	F	17	63
S'Francisco †	C	17	63
Seoul	F	26	79
Singapore		-	-
Stockholm	S	21	70
Strasbourg	F	17	63
Sydney	F	13	55
Tangier	S	24	75
Tel Aviv	S	30	86
Tenerife	S	23	73
Tokyo	S	22	72
Toronto †	S	13	55
Tunis	F	27	81
Valencia	S	24	75
Venice	S	22	72
Vienna	F	22	72
Warsaw	S	20	68
Washington †	C	20	68
Zurich	C	15	59

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

NORWAY

Norway stands on the brink of making important decisions about its relationship with the rest of Europe. However, the country is in a divided mood as it prepares for union. **Robert Taylor** investigates

Divided over union

NORWAY is preparing for covergence with the rest of western Europe but is in a divided mood. By the end of this year a number of important decisions will have been taken by the country's politicians which will point the country in a new direction and take it out of its semi-isolation.

In September, Parliament is expected to back, by a comfortable majority, Norway's membership of the 19-nation European Economic Area, EEA. From January 1 1993 the country will then become a part of an integrated free market stretching from the Arctic to the Mediterranean.

Two months later, the ruling Labour Party at its conference, looks set to vote decisively in favour of Norway joining the European Community. Mrs Gro Harlem Brundtland, the indomitable prime minister, will then hand in the Norwegian membership application before the end of the British EC presidency in December. This will ensure Norway does not miss inclusion in the process of enlargement, but lines up with Sweden, Finland and Austria for negotiations with Brussels.

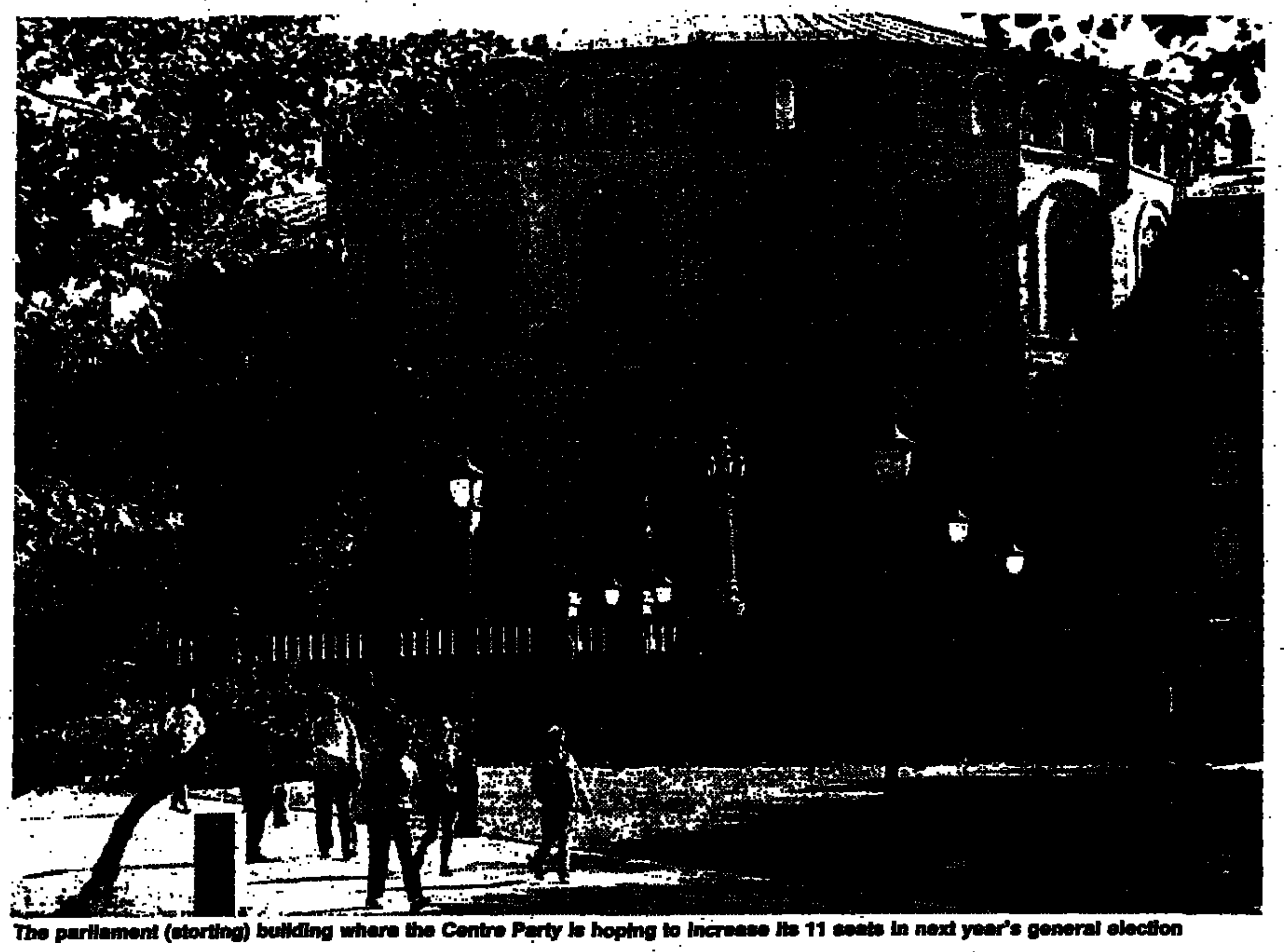
None of these decisions look like being easy to make. Norway – unlike any other EC membership aspirant – retains a persistent and sizeable popular opposition to any moves designed to take the country in the direction of closer unity and co-operation with western Europe.

There has been a sharp deterioration in national support for Norwegian EC membership in the aftermath of the Danish referendum rejection of the Maastricht treaty on June 2, with one poll showing 52 per cent against and only 36 per cent in favour. In spite of this, Mrs Brundtland intends to stick firmly to the timetable she devised at least 12 months ago. Her advisers insist there will be no sudden change of mind on this issue by the government in the face of the hostile opinion polls.

Since her return to office at the head of a minority Labour government in October 1990, Mrs Brundtland has come in for a great deal of criticism over what has been regarded as the slow pace of her strategy towards the EC. This, it is alleged, has enabled the anti-EC forces to seize the initiative. Certainly, the prime minister has moved Norway much slower in an EC direction than its Nordic neighbours.

It was in October 1990 that the Swedish government intimated it wanted to join the EC and its membership application was handed in last July. In Finland the conversion to the EC cause of the political establishment was even more rapid.

Mrs Brundltand's caution does not reflect doubts on her part about whether or not Norway should join. The prime minister's personal commitment is not in question, but she faces domestic political difficulties over the issue which have not been sufficiently appreciated by the outside world.



The parliament (storting) building where the Centre Party is hoping to increase its 11 seats in next year's general election

It is not the first time that Norway has found itself in its present uneasy position. Twenty years ago a Labour government negotiated the country's EC entry terms, alongside Britain and Denmark, but in the advisory referendum called to endorse that membership agreement a clear majority of Norwegians (53.5 per cent to 46.5 per cent) rejected membership.

The EC question brought a bitterness and division to Norwegian politics that today's political leaders remember with a shudder and none want to see a repetition of events that divided families and friends. But it is going to take a high level of statesmanship and a good deal of luck for Norway to avoid a return of those emotional feelings during the next few years.

Mrs Brundtland has embarked on a high risk strategy over the EC which could weaken her party's perilous position in the next general election in September 1993. The latest public opinion poll showed that the Labour party this month has reached a record low popularity rating of about 28.7 per cent. This dismal performance compares with Labour's vote of 34.3 per cent in the 1989 general election, which was itself the worst result the party had suffered since 1930, and a derisory 30.4 per cent vote in last September's local government elections. For a party that has dominated most of post-war Norwegian politics Labour's standing is very poor.

Some of the government's unpopularity stems from the country's persistent economic woes, particularly the climbing level of registered unemployment which is ecpected to climb to nearly 6 per cent by the end of this year. This figure is a good deal less than in most of western Europe but it is the highest suffered in Norway for over 60 years and it appears to be damaging Labour's electoral position.

Because Norway's state finances continue to be propped up by oil and gas revenues, the government has found it possible to pursue an expansionist fiscal policy with a 1.3 per cent budget stimulus this year. However, this seems unlikely to trigger any pre-election consumer boom as many Norwegians seek to save and reduce the debts they accumulated in the care-free 1980's. international demand remains too weak to stimulate mainland industrial investment.

There are some bright economic indicators. Price inflation remains low at under 3.0 per cent and so do wage settlements while the current account surplus looks set to rise as Norway becomes a net creditor country by the mid-1990's. In its spring survey of Norway, the Organisation for Economic Co-operation and Development suggested that Norway in the short term would enjoy only a hesitant recovery, mainly because of the lack of a mainland industrial upturn. It is also worried by the deep and intractable banking crisis that underlines the fragility of the economy.

However, economic uncertainties are not perhaps the main reason for the government's unpopularity. Even Labour ministers accept that the party's attitude towards Europe is costing it dearly with the voters.

In spite of this, Mrs Brundtland is not going to be deflected from her determination to start negotiations on Norway's EC entry as soon as possible after November in the hope of short-term gains at the polls. Her position inside the Labour Party that she has led since 1981 still looks impregnable. Indeed, to many who are not Labour sympathisers, Mrs Brundtland is seen as the only Norwegian politician with the strength and ability to govern effectively.

On the EC issue she reflects majority Labour Party membership opinion. Over the past nine months a wide-ranging debate has been going on at the party grassroots on the pros and cons of Norway joining the EC. This culminated during the spring in votes at Labour's 19 county conferences across the country with only the four far northern ones coming out against an EC application.

However, nobody in Oslo is under any illusions about the up-hill struggle that Mrs Brundtland faces after the end of this year over the EC issue. The anti-EC forces have built up a formidable head of steam with a clever appeal to tiny Norway's strong sense of national identity.

The prime minister has resisted the demands for a referendum this autumn on whether Norway should join the European Economic Area, or on whether the country should submit an EC membership application to Brussels. But she – like all the other political leaders – accepts there must be a national referendum on the entry terms, as in 1972, once they have been negotiated. Although the result will not be binding, because there is no constitutional requirement for it, Mrs Brundtland has made it clear she would accept the people's verdict one way or the other.

It remains unclear just how quickly Norway's EC application can be negotiated once submitted. Much will depend on what the priorities are in Brussels after the muddle over Maastricht. But policy makers in Oslo believe it could be 1996 or even 1997 before Norway's membership question can be settled. At least this will provide some time for the Yes to EC campaign to transform public opinion from its hostility or indifference.

There are certainly powerful voices in favour of EC membership for Norway. Most mainland industrialists support the cause while widespread backing can be found among trade union activists. The media is sympathetic across the spectrum. Among the political parties, the Conservatives and the ultra-right Progress Party back EC entry. while Labour, after November, will campaign separately in support of Norwegian EC membership.

The trouble is that this potentially broad and impressive alliance is similar in composition to the one that narrowly lost this month's referendum in Denmark. As in 1972, the Norwegian establish

Continued on next page

Editorial Production: Phillip Halliday

■ THE ECONOMY

It all depends on oil

NORWAY'S vast petroleum resources are both a blessing and a curse for the economy. *To say that the discovery of oil* two decades ago has had a profound impact on its structure *would be a gross understatement.*

One has only to look at this year's massive budget deficit to appreciate Norway's extreme addiction to petroleum revenue or *reflect* on an earlier economic downfall caused by plunging petrol prices.

Including petroleum revenue, this year's budget deficit stretches to NKr39.9bn, allowing the minority Labour government to pursue an ever-expansive economic policy aimed at *shoring* up the sags in the social welfare system. Excluding petroleum, the deficit swells to a new record NKr71.1bn.

Luckily, petrol production will grow by over 20 per cent to 1996 from a current level of slightly more than 2m barrels *per day. Thereafter,* the main reliance on oil revenue will begin to shift to one on revenue from natural gas sales as oil production begins a steady decline to the year 2000.

It is only recently – since the green wave of environmental concern swept Europe – *that natural gas's future has* brightened with the prospect of conversion to gas-fired power generation *from coal-fired* power generation. Even so, Norway has done nothing to protect *itself against the* possibility of plunging oil prices. Official estimates indicate that a fall in the oil price of just $1 a barrel weakens Norway's petroleum wealth by more than $20bn, or by about 25 per *cent of mainland gross domestic* product.

This means that the value of *petroleum resources* would become negligible if the oil price plunges below $10 a barrel, as it did in 1986. With the oil price at $18 a barrel, new oil and gas field developments from about the first quarter of *the next century would have to* be postponed to avoid large losses on investment.

It is only when petroleum prices exceed extraction costs that the economy derives a windfall gain – and Norway's petroleum extraction costs are among the highest in the world. So far this year, oil prices have struggled to maintain a level of about $19 a barrel, and many international oil companies do not foresee a change in this level over the next few years.

Norway's petroleum wealth has an estimated net present value of NKr710bn, with the state's share put at NKr580bn, yielding an estimated return on investment of NKr41bn in 1992.

When world crude oil prices fell to $8 a barrel in 1985-86, a severe blow was delivered to the economy – which was already in a state of acute overheating – from which it has not yet recovered. Norway was forced to devalue by 10 per cent to counteract a deterioration in international competitiveness. The government then set out a three-pronged strategy to reduce the economy's dependence on petroleum income by seeking to reduce growth in private and public consumption while stimulating productivity through supply-side reform.

Reduction in petroleum revenue slashed Norway's spendable real income by 9 per cent as tax and royalties from the sector fell to just over NKr18bn in 1986 from NKr52bn in 1985, *or measured in proportion* to total income, to 7 per cent from 19 per cent.

Export revenue from the petroleum sector was reduced by NKr30bn, corresponding to *about half the deterioration* in the current account from 1985 to 1986.

This reduced the sector's share of gross national product to 11 per cent in 1986 from 19 per cent in 1985, although total petroleum production increased to 69m tonnes of oil equivalent (t o e) from 64m t o e in the period.

The current account *swung* from a surplus of 5.5 per cent of GDP to a 6.5 per cent deficit. *Fresh warnings on the oil price* for 1992 are emerging – indeed, in this year's revised budget *forecast* the government cut budget-based oil prices to NKr120 from *December's NKr131 a barrel. Last* year, oil prices averaged about NKr134, due to windfall effects from the Gulf war.

Nevertheless, the government revised upwards 1992 *GDP* growth to 2.9 per cent from 1.9 per cent predicted in December and sees GDP growth of about 2.5 per cent until 1996, lifted by rising North Sea oil *output.*

Overall GDP grew by 1.9 per cent in 1991, down from the 2.6 *per cent forecast earlier* by the government. Petroleum production will expand to 129m *t o e this year, up 4m t o e on* December's forecast, and will swell further to 149m t o e by *1996.*

But the government revised downwards last year's output *to 118m t o e from the 123m* t o e estimated in December, largely because of a maintenance overhaul *causing* a longer than expected shutdown of Statfjord, the biggest oil producing field.

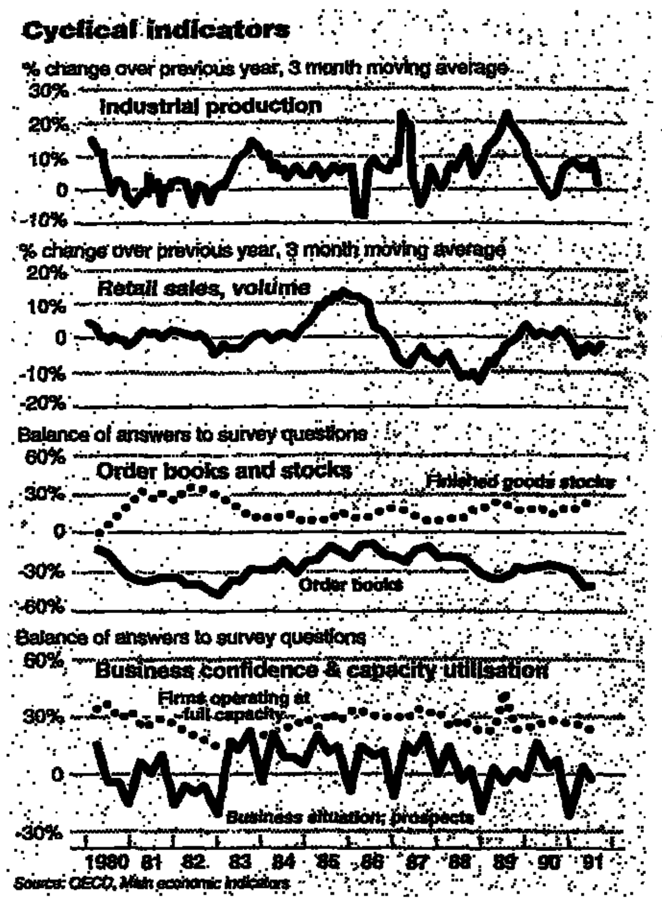
The current account surplus was also revised downwards to NKr26bn from December's forecast NKr37.3bn, due to the adjustment in forecast oil prices, but the government believes that net foreign debt may be reduced to zero in 1994.

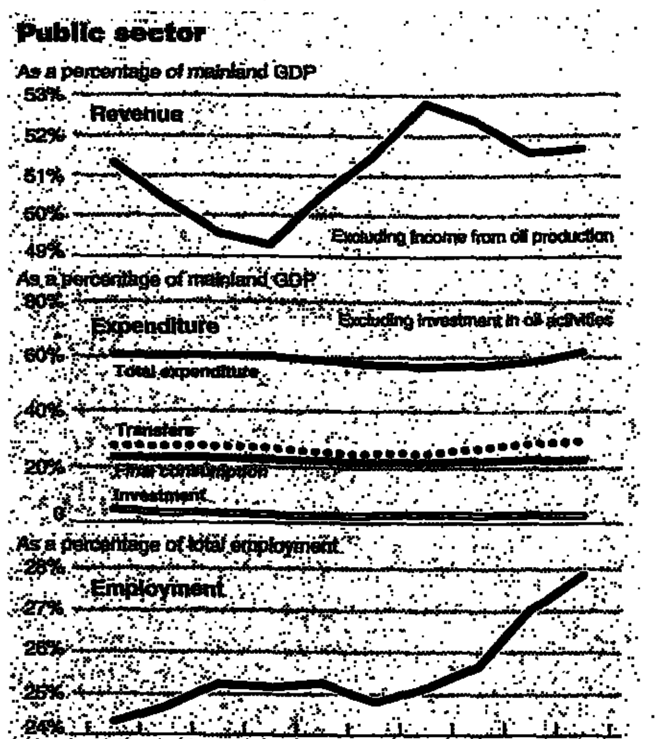
The budget also revealed weaknesses in the mainland *economy,* which excludes petroleum and shipping. Investments in mainland *industry are expected to fall* 2 per cent this year and growth has been pared back to 1.5 per cent from December's 2 per cent forecast. Demand for goods and services, however, may *rise* by 2 per cent from 1991-92.

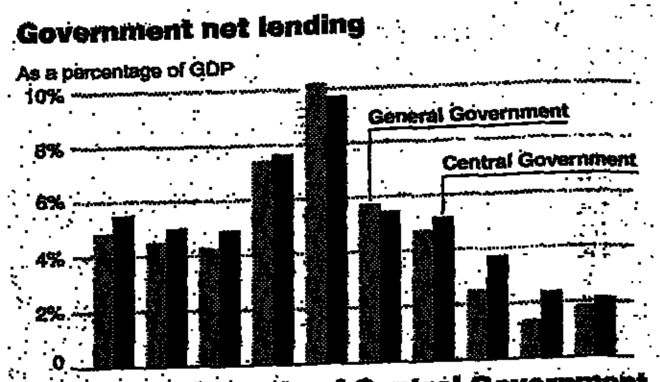
Cost competitiveness has improved by about 10.5 per cent in the past three years. Also on the bright side, inflation, at 2.5 per cent, is lower than that of Norway's main trading partners and interest rates have fallen to the level of most of western Europe.

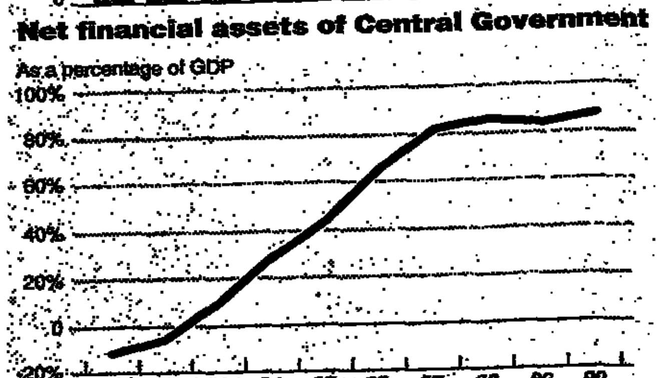
Households have improved their financial position and debt is being reduced on a large scale. But, nothing is being done to reduce the economy's *dependency* on petroleum income. On the contrary, petroleum earnings have allowed NKr40bn to be spent *since* 1988 to stimulate domestic demand. This year the government has allocated expenditure *of NKr2.5bn* just to curb unemployment, which, at 8 per cent, has risen to its highest ever post *war level.*

Karen Fossli









■ BANKING AND FINANCE

Cautious optimism for this year

AFTER five years of disastrous results, Norway's banking sector, which is struggling to recover from Europe's worst post-war financial crisis, sees cautious optimism over the prospects for this year.

In the first quarter, the 23 commercial banks' aggregate operating losses shrunk to 0.9 per cent of total assets from 1.24 per cent in the same *period last year. The banks'* first-quarter operating profit rose 32.4 per cent to NKr1.205bn from NKr910m.

Combined credit losses retracted by 18.4 per cent to NKr2.071bn from NKr2.54bn, leading to an aggregate 46.6 per cent advance in pre-tax profit. A reduction in credit losses is the single biggest factor contributing to the commercial banks' first quarter improvement.

Aggregate net interest earnings in the period rose 4.6 per cent to NKr2.566bn from NKr2.453bn, while operating costs were cut by 8.2 per cent *to NKr2.662bn from* NKr2.866bn, benefiting from a 24 per cent reduction in staffing over the past four years.

Central bank figures show that the volume of non-performing loans was reduced to NKr15.3bn by the end of the first quarter from NKr19.1bn just three months earlier. Recent reports point out that in the last year, Norway's four biggest banks – Den norske Bank (DnB), Christiania Bank, Fokus Bank and Sparebanken Nor – reduced combined assets by NKr90bn, mostly through big reductions in loan volume.

Since 1987, *the commercial* banks have suffered almost NKr40bn in credit losses. 1991 was the worst year ever when they reached NKr14.2bn. However, more recent trends suggest they may end the year roughly in balance, according to the central bank.

Last autumn, the government was forced to intervene to prop up the banks by injecting NKr15.5bn of taxpayers' money into their empty coffers as a result of equity capital either being wiped out or nearly erased by credit losses and a plunge in the value of collateral – mainly real estate – *for loans. In Oslo, property* values are said to have fallen by 35 per cent in the past four years.

Although estimates vary, as a result of the rescue action, the state is the dominant shareholder in the banking system with ownership of between 50 per cent and 70 per cent. As Mr Hermod Skaanland, the central bank governor, put it in his annual address to the business and political community: "Stability has been restored, but the [banking] crisis will remain unresolved until the banks are in a position to raise capital in *the private market on normal* market terms."

But the government and the *central bank agree that it is* too early even to raise the issue of reprivatising Christiania Bank and Fokus Bank. "Although in many respects it is desired to bring in private owners, it is too early to fix a strategy for privatisation," the government said in last month's revised national budget for 1992. "Privatisation can first occur when the value of the banks can be fixed with more certainty than there is today," it added.

The government has rejected a scheme to help revive the banks in which their bad loans would be transferred to a bank established by the state – a *so-called bad loan bank.* "The [finance] ministry will not support the establishment of a *state finance institution* which buys bad engagements from the banking sector."

However, Mr Svein Gjedrem gaard, the finance secretary, said recently that the government might consider proposals by individual banks to establish their own subsidiaries into which they could offload non-performing loans.

In the revised budget, the government proposed a plan to help the banks further. It would allow so-called "unspecified loan loss reserves" during a transitional period to qualify as tier capital. Tier capital is the banks' supplementary capital, plus equity, subordinated capital and core capital, under the Bank for International Settlements (BIS) capital adequacy rules.

This allowance alone could *curb the banks' need for state* support this year, which was estimated by the government *to be NKr3.4bn at end-1991. At* the end of last year, the commercial banks had an aggregate capital adequacy of 7.1 per cent in relation to risk-weighted assets, helped by state transfers. By comparison, before state cash transfers, at the end of last year's third quarter, the figure was merely 4.6 per cent.

The banks are not the only finance sector concerned. According to the finance ministry, the aggregate operating profits of the insurance companies last year halved to NKr2.8bn due to lower financial income caused by stock market weakness and losses in *the value of bank shareholdings* and bonds.

At the end of last year the *Oslo stock exchange All-share* index was 9.4 per cent below the level of 1990.

The index declined throughout 1991 and bank shares saw an 80 per cent plunge in market value. At the same time, the insurance companies' costs escalated, but credit losses comprised just 0.3 per cent of total loans (an estimated NKr200m).

By comparison, the commercial banks' aggregate credit losses comprised 5.3 per cent of loans and savings banks 2.6 per cent.

In what could be described as a purging process, later this year a government-appointed commission will issue a far-reaching report on the causes behind Norway's bank crisis.

In the meantime, a government-funded study of the crisis, led by Professor Torger Reve of the Bergen-based Norwegian School of Economics, Business and Administration, has concluded that, following deregulation, the banks lack competitive experience and have pursued growth strategies which increase their risk exposure, resulting in substantial credit losses.

The report emphasised the problems experienced by the banking sector in converting from a regulated to a market-based system.

The banks expanded their total volume of loans from just over NKr110bn in 1984 to just under NKr300bn by 1990, it said.

In this expansion, many of the banks never realised profits from basic banking but made gains from non-banking activities such as foreign currency trading and stock market investments.

"The banking crisis which most observers thought was over in 1989-90 has reached its worst years ever in 1991-92. The crisis goes beyond being a banking crisis, and it is more correct to talk about a breakdown of the whole financial system," said Prof Reve's far-reaching report.

KF


Hermod Skaanland: stability has been restored

Divided over union

Continued from previous page
ment backs EC entry but so far *not enough of* the people are prepared to do so.

This makes it easy at the *moment for the anti-EC* movement to argue that the issue is really elitist, us against them.

If the EC question is polarised in such a simplistic and emotional way it could be damaging for the pro-EC coalition.

There is a much more immediate trouble confronting Mrs Brundtland. Unless the Labour Party starts to restore its lost popularity, the anti-EC parties – the Centre and the Socialist Left – look set to increase their representation in the next parliament. At present they lack the blocking quarter *of seats needed* to stop the amendment to the constitution required to take Norway into the EC after a referendum result.

While the Socialist Left has 17 seats, the Centre holds 11 in a 165-strong Parliament. On present opinion poll evidence those two parties look set to win enough seats to thwart any move by whoever is in *government after September* 1993 to take Norway into the EC, even if the referendum supports the EC entry terms.

The main opposition pro-EC Conservatives seem unlikely to win the next general election.

All of this points to even more confusion after next polling day in *September 1993.* Moreover, to add to the difficulties no government can dissolve a parliament within its full four-year set term.

While Norway embarks on its journey towards the EC it is by no means clear that it will reach its destination. So much is going to depend on the ability of Mrs Brundtland to point the way ahead, shift public opinion and negotiate terms of entry that safeguard Norway's national interest.

■ POLITICS: Centre Party on the move

Riding the crest of a wave

THE Centre Party is riding on the crest of an electoral popularity it has never known before. In the latest IMM opinion poll earlier this month it secured 14.9 per cent support, *the biggest rating recorded in* the party's history.

This is even better than the 12.1 per cent the Centre Party won in last September's local government elections. If *repeated at next year's general* election the Centre would at least double its 11 seats in Parliament and this would provide the party with a formidable blocking force.

Mrs Anne Enger Lahnstein, the party's young leader, is in no doubt why the Centre is doing so well. "We are the main anti-EC force in Norway," she argues. A good deal of her time is spent campaigning around the country against what she sees as the threat of an over-mighty European state to Norwegian independence.

"I am an internationalist and I don't want to isolate Norway," she insists. "I support our membership of the United Nations and of Nato. I favour closer co-operation with Europe on issues like the environment. But I do not believe decisions affecting our lives should be taken by bureaucrats in Brussels. We are a small, special country and we must make the decisions that affect our lives."

However, Mrs Lahnstein is not just opposed to any suggestion that Norway should seek EC membership. Mrs Lahnstein is hostile to Norway's participation in the European Economic Area EEA. She intends to fight all the way against ratification of the EEA agreement that is expected to win a clear majority in Parliament in September and will not be subject to a national referendum.

Pointing to the bulky volumes of EEA rules and regulations Norway piled on her office table, she asserts that the people do not realise what is going on in their name. "I am not giving up hope we can prevent it," she declares.

At times Mrs Lahnstein can sound far to the left in her denunciation of what she calls the dominance of money power in the EC. But she is sensitive to any suggestion that the Centre Party might collaborate more closely in a joint anti-EC campaign with the populist Socialist Left party which is doing well in opinion surveys at the moment.

In fact, there is little doubt that Mrs Lahnstein's gut feelings are more sympathetic to Labour than the Conservatives. After all it was her mobilising of the centre parliamentary group in October 1990 that signalled the downfall of the right-centre government of Mr Jan Syse that held power for just over a year. Mrs Lahnstein says the moment had come to put a stop to the government's efforts to create the European Economic Area.


Brundtland: Centre Party supported her return to office


Lahnstein: remains an admirer of the prime minister

Its main pockets of support still come from the central rural areas of the country

Her view carried the day and the Centre Party was forced to leave the coalition. It was thanks to Mrs Lahnstein's efforts that the party went on to accept that it should support the return of Mrs Brundtland to office at the head of a minority Labour government.

The fact that Mrs Brundtland is as pro-EC as Mr Syse was does not appear to bother Mrs Lahnstein who remains an admirer of the prime minister. After all, she points out, the Centre Party is at least free of any association with a pro-EC policy in government and as a result is building up a larger electoral mass base.


Syse: led a right-centre government for just over a year

The Centre Party was founded in 1920. In Norway, like others of the same name in the Nordic region, it was for a long time little more than a pressure group for farmers and fishermen. Its main pockets of support still come from the central rural areas of the country. But the party is attracting voters from a much wider spectrum because of its robust line on Europe. Mrs Lahnstein, who has a seat for Oslo, argues that the party's organisation can hardly keep pace with the influx of new recruits.

In her opinion the Centre has been helped by a revival in Norway of older values. "I think that around the mid-1980s there would have been much less opposition here to joining the EC at a time when people were more concerned with money and materialism," she argues. "The recession in 1986 and the bank crisis have made many Norwegians think again. Now there is much more hard work and a belief that we should take care of each other."

'We are a small, special country and we must make the decisions that affect our lives'

Mrs Lahnstein wants to put people and the environment before economics. She believes Norway will lose its gentle and comfortable way of life if it joins the EC. Her feelings reflect the widening gender gap — noticeable elsewhere in the Nordic region — with a large majority of women opposed to the EC compared with men.

Robert Taylor

■ FOREIGN AFFAIRS

Doubts about the EC

THE Labour government is preparing itself for what looks like being a real and protracted struggle to win over hostile public opinion to the idea of the country joining the European *Community. The case for* Norwegian entry has so far gone by default, leaving the anti-EC forces free to propagate their opposition but this is about to change.

Mrs Brundtland and her cabinet colleagues intend to launch a united campaign of persuasion with the Labour party as their organisational base which will stress in particular the political case for Norwegian EC membership. Ministers will argue that the country must join the EC to further the future stability of Europe.

"I believe we have only a limited period of opportunity in which to achieve an integrated European co-operation," argues Mr Thorvald Stoltenburg, Norway's experienced foreign minister. "If we don't achieve that now I fear we could go back to the Europe of the 1930s. The issue is about the peace of our continent."


Stoltenburg: only a limited period of opportunity

In his opinion the government has not been good in selling the concept of EC membership. But he believes confidently that there will not be a no vote, as in 1972, when Norway holds its referendum on the EC issue after the completion of entry negotiations. "I trust the Norwegians," declares Mr Stoltenburg. Certainly Norway has not been reluctant in the recent past to play a full part in organisations that extend beyond the nation state.

Norway, unlike its Nordic neighbours *to the east*, has believed, at least since its occupation by the Nazis in the Second World War, on the need for collective security for its own defence. It was a founder member of Nato, and it continues to recognise that its defence can only be guaranteed through close co-operation with others.


Holst: very risky to stay outside the EC

This is why Norway is looking favourably on the idea of joining the Western European Union perhaps to begin with as an associate member. But ministers believe it would find no difficulty at all in playing a full part in the development of any common foreign and defence policy that emerges inside the EC. "The dynamism of Europe is making it very risky for us to stay outside the EC," argues Mr Johan Jorgen Holst, Norway's defence minister for 5½ years. "Since the war the country's security has been assured by being in Nato but this could be changing. Membership of the EC looks like becoming all important for our own defence."

This does not mean that Norwegian policy makers see any defence alternative to Nato emerging in the foreseeable future inside the EC. Moreover *Mr Holst insists that his country needs an Atlantic* framework for its defence and the US will remain the only country that could provide that.

As the only Nato member with a land border with Russia, Norway is ever *conscious* of its strategic position. The end of the Cold War between east and west and collapse of the Soviet Union may have eased tensions in the northern *European security area but the* Norwegian government is still keeping a wary eye on its relations with Moscow. "Russia is no longer the single largest military power in central Europe *but it is in the north,*" explains Mr Holst. The large naval and nuclear facilities remain in the Murmansk region with access to the seas of the north.

Some policy makers in Oslo worry about some form of military takeover in Moscow which could pave the way for the creation of an ultra-nationalistic and authoritarian regime with territorial ambitions.

"The situation in Russia is clearly very volatile," argues Mr Holst who points out that the chauvinistic Mr Vladimar Zhirinovsky polled *over* 40 per cent of the vote in the Soviet armed services dominated Kola peninsula in last summer's Russian presidential election. "The peace dividend is at the level of political atmospherics rather than in a reduction in military capacities," he adds.

On the other hand, Mr Stoltenburg is confident that negotiations with Russia over its territorial boundary line with Norway through the Barent Sea will be completed shortly, after a long period of dispute that clouded relations between the two countries even during the Gorbachov era.

Ministers hope that northern Europe will remain a quiet corner of the continent but they are not taking it for granted. The level of Norway's defence spending remains relatively high, though cut back by 1 per cent from the 3 per cent annual growth achieved in real terms during the 1980s in spite of the changes in the east and the pressures on government spending due to the country's weak economy.

RT

AGRICULTURE and fishing arouse deep passion in Norway. Fears about losing autonomy in these industries are among the main reasons why Norway narrowly rejected membership of the European Community in a bitterly divisive referendum two decades ago.

■ AGRICULTURE AND FISH

Two main arguments of the anti-EC camp

Farming and fishing remain the two main arguments of the anti-EC movement in Norway. It argues that the country should remain outside the Community in spite of the fact that Nordic cousins Sweden and Finland have applied for membership.

Both industries are used as policy instruments to maintain a settlement distribution in remote areas of the country and both are the most subsidised Norwegian industry.

Mrs Gro Harlem Brundtland, Norway's prime minister making a pro-market speech warned: "The Labour party has important principles to defend in the new agricultural policy that will be devised. Agricultural activites shall be spread throughout the country; and those engaged in agriculture shall not have a lower standard of living than the rest of the population.

"We realise that others take a different view of this. Many advocate concentrating our efforts on achieving the most efficient agricultural sector possible, and letting the more vulnerable districts fend for themselves. This is unacceptable to us."

Few outsiders realise the great expanse of Norway. One way to gain a perspective is to turn a map of Norway around – reverse north and south on *a pivot – and you will find,* surprisingly, that the north would stretch far down into the Mediterranean reaches of Italy.

Norway's area is 324 sq kms. and the western coastline is over 2,000 kms long. On one hand, fishing is Norway's most international industry – outside petroleum – with 90 per cent of the catch exported – 60 per cent to Europe. Fishing off the coast and in distant icey waters has always been important to Norway which, until recent times, was one of the world's leading fishing nations.

Fishing accounts for about 7 per cent of gross domestic product. Farming, on the other hand, employs less than 7 per cent of the country's workforce and is meant to make Norway as self-sufficient as possible in food production, provide outlying rural areas with employment while matching farm *incomes to those of the aver*age blue-collar worker.

Lavish subsidies, in the *range of NKr12bn of annual* state transfers, have supported this policy in recent years.

Only 3 per cent to 4 per cent of Norway's land mass is cultivable, *about 9,000 sq kms,* and most grain is imported. Farming meets the demand for milk, *cheese and meat and some of* this produce is exported, but generally at an economic loss.

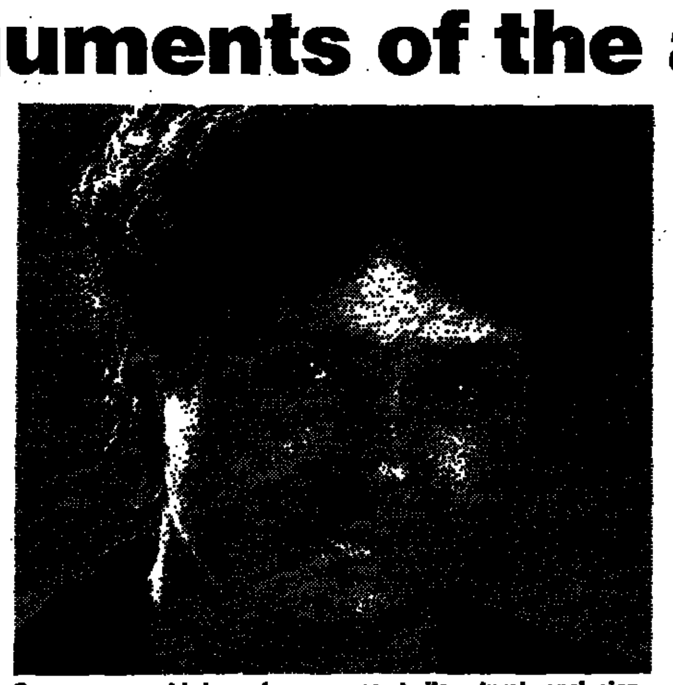
In 1990, total turnover of the 16 agriculture co-operatives was NKr34bn, a 2.5 per cent growth over the previous year. About one-half of Norway's

The burden falls on consumers, whose outlay rose four-fold to nearly NKr9bn

farmers are dairy farmers and are situated in extreme outlying rural areas. About 20 per cent of Norway's municipalities have more than 25 per cent of the working force employed as farmers. But there has been on average, a reduction in the number of farms of about 3,000 *a year since the 1950s.*

About 60 per cent of Norway's farmers have the main *part of their annual income* from farming but all have second jobs.

The odd side of Norway's farming picture is that the country still imports about



Oeyangen: must bring reform process to its natural conclusion

one-half of consumption and it is the one area in which there *has been no Nordic co-ordina*tion of policy nor co-operation in production.

*However, Norway's agricul*ture policy is about to undergo reform. Last year a white *paper suggesting the direction* of the reform and pinpointing measures was meant to be presented in parliament but was postponed by the delay in the Gatt and Uruguay Round negotiations. It will be further postponed until agreement on these *two international* issues is achieved.

However, the minority Labour government is hell bent on presenting some sort of white paper on policy this autumn, although it is disappointed that it will not be as *far-reaching as it had intended.*

Earlier this year, Ms Gunhild Oeyangen, Norway's tough, *no-nonsense* agriculture minister, told OECD delegates that bringing Norway's agriculture reform process to its natural conclusion was necessary.

Ms Oeyangen conceeds that to achieve success in the reform process, policy will

About 60% of farmers derive most of their income from farming but all have second jobs

have to be broad. "We must not focus simply and entirely upon the economic gains to be *achieved through reducing* subsidies and liberalising trade, even if this is of substan*tial importance,"* she warned.

Agriculture's role is likely to always remain a priority as it *upholds traditions and cultural* heritage while supporting rural communities.

She told OECD delegates that agriculture was strongly decentralised, and thereby provided an important and independent element in the development of more diversified economic basis in rural areas.

In a far-reaching report, the *OECD* urged Norway to revamp is agriculture policy to become more market oriented and less insulated. It said that the total price and subsidy assistance to Norway's agriculture sector, in relation to the value of production, was the highest of all OECD countries.

The OECD argued that Norway's agriculture policy's multiple objectives – security of food supplies, equitable farm incomes, regional development, environmental preservation and economic efficiency – were hard to reconcile.

The OECD calculated that subsidies measured as the net total producer subsidy equivalent (PSE) more than doubled from NKr8.1bn to NKr17.2bn between 1979 and 1988.

About half of total subsidies – those supported by high pro*ducer prices which are sus*tained by strict import barriers for most commodities – came *from direct payments, includ*ing deficiency payments to shelter domestic production from world markets.

The burden falls on consumers, whose support to the sector rose four-fold to nearly NKr9bn, as the tax they paid on farm production more than doubled to 63 per cent by 1988.

A government-appointed committee urged a two-thirds reduction in support to farms and a realignment of agricuture policy to become market-oriented. In the last couple of years more than 100,000 farmers received more than 100 price support measures.

However, the report warned that in remote areas of Norway a necessary level of government support should be maintained and that measures should continue to restrict imports of agriculture products to a level that would secure the furture of Norway's farming industry to ensure adequate food supplies.

The government admitted that the report initiated an important *debate* over its excessive agriculture support and helped identify structural *problems of the sector.*

Nevertheless, Norway believes that it has special *problems relating* to its agriculture sector – which it calls arctic farming – and should it *join the EC,* would benefit from negotiating terms and conditions for this sector together *with Finland* which it says has a similar uniqueness.

Norway's potential as an agriculture producer is far from being utilised and farm operations could easily be *stepped up.* Norway has no shortage of produce but overproduction remains a concern of future farm policy.

Karen Fossli

■ ENERGY

A global dialogue

NORWAY this year overtook *Britain as western Europe's* biggest oil producer. Daily production exceeded 2m barrels *and has remained at or* slightly above this level.

More than one-half of west*ern Europe's remaining* proven oil and natural gas reserves are found on the Norwegian continental shelf (NCS). According to the Norwegian Petroleum Directorate (NPD), the energy watchdog, discovered and recoverable NCS reserves stood at 5.3bn *tonnes of oil equivalent (t o e)* at the end of last year. Of the total, 40 per cent is said to be *oil and 60 per cent gas.*

The NPD estimates that at current production rates, these *reserves are enough to allow* oil production for the next 17 years and gas production over *the next 111 years.* If "enhanced petroleum recovery" technology is utilised, the *NPD believes that these time* horizons could be doubled.

In addition to discovered reserves, *the NPD reckons that* "undiscovered but likely-to be found" reserves comprise 3.5bn t o e of which 30 per cent is believed to be oil and 70 per cent is thought to be gas.

Exports of oil and gas account for more than one-third of Norway's total exports and petroleum activity this year will account for more than 15 per cent of the gross national product (GNP). In 1991 Norway's petroleum *industry employed more than* 63,000 workers.

Norway is ranked eighth in *the world league of oil produc*ers and is the biggest crude oil exporter outside the Organisa*tion of Petroleum Exporting* Countries (Opec).

Exports of natural gas meet *more than 10 per cent of west*ern European demand and account for 25 per cent of the *Community's gas imports.* Contracted gas will see annual gas sales expand to 45bn cubic *metres (bcm) by 1999* from about 28 bcm today but, with the green environmental wave *sweeping Europe gas exports* could swell significantly higher. Gas is considered a much cleaner alternative to coal in power generation.

Last year Statoil, the Norwegian state oil company, placed contracts worth more than NKr21bn with the petroleum service industry but total industry contracted expendi*ture was close to NKr32bn,* with Norwegian companies gaining about 60 per cent of the business.

At a time when it is argued by many that oil has lost its *prime spot* on the world political agenda, Norway refutes this in the promotion of what *it calls "global energy policy* inter-relationships". For Norway this is an important *foreign policy objective,* since oil continues to influence and be influenced by international politics, *it argues.*

The country sees as one of its main foreign policy tasks to not only promote but also stimulate a global energy dialogue. "Within the IEA *(International Energy Agency)* Norway has emphasised the need to pursue a more long-term foreign policy endeavour to build confidence and dismantle the confrontational attitudes between oil-exporting and oil-importing countries," says Mr Arne Walther head of the energy section at the foreign ministry.

"Long-term security of oil supply can be promoted by more orderly relations and *greater mutual understanding* between oil-exporting and oil-importing countries."

For example, when the oil price plunged below $8 a barrel in 1985-86, Norway helped *Opec prop up prices by imple*menting a 7.5 per cent self-imposed production restraint. *The support* was unilateral in form and limited in time.

Opec this year appealed to *Norway to reinstate a produc*tion restraint policy but this time it was spurned.

During Iraq's invasion of Kuwait last year, Norway within the IEA *helped form a* contingency plan which aimed to secure energy supplies and weaken an expected dramatic rise in oil prices. "The Gulf crisis underscored the close relationship between energy and political power and confirmed a community of interests in avoiding excessive volatility in the oil market and in securing the supply of oil," Mr Walther says.

In keeping with these political efforts, Norway last month hosted a meeting of IPEC (Independent Petroleum Exporting Countries) and next month will host a workshop of governmental leaders, at ministerial level, in which 20 countries are expected to exchange information and pol*icy views to promote* common understanding of common energy-related problems.

According to a report by Edinburgh-based analyst County NatWest WoodMac (CNWM) the state, through direct financial investment, owns 44 per cent of all petro*leum reserves, 44 per cent of* commercial reserves and 42.5 per cent of technical reserves. *In addition, the state owns* 28 per cent of total production for the 1992-95 period and holds *41 per cent of the total* licensed acreage.

The report estimates 1992-95 average *daily production* at 2.126m barrels of oil, 132,000 barrels of natural gas liquids and 2.948m cubic feet of natural gas. It says Statoil, Norsk Hydro and Saga Petroleum, the three Norwegian oil companies, control more petroleum reserves than the combined 16 European companies or seven US companies operating in Norway.

The Norwegian companies own 25 per cent of the commercial reserves, 35 per cent of the technical reserves, 29 per cent of total production in the period 1992-95 and hold 23 per cent of total acreage awarded, says CNWM.

KF

■ THE ENVIRONMENT

Given higher priority

MRS Gro Harlem Brundtland may have lacked the panache or effrontery of Cuba's Fidel Castro at the Earth Summit in Rio de Janeiro but the Norwegian prime minister was well received by delegates for her knowledgeable contribution to the discussion. *Here at least* is one western democratic leader who seems to be in tune with the *feelings of the developing* nations over the future of the global environment.

As head of an international commission investigating the subject in the early 1980s *she was one of the few* politicians with a claim to know something about the sub*ject beyond the cloudy plati*tudes and cliches that tend to dominate too much of the *global environmental debate.*

It has also ensured that the Norwegian government gives a much higher priority to environmental issues than most others among western market economies. Parliament recently agreed to introduce a new article into Norway's constitution which grants everybody the right to a health and sustainable environment. Such a gesture may seem rather meaningless to many people but at least it focuses national attention on a subject that has been neglected for far too long.

As a small country, Norway is only responsible for an estimated 0.1 per cent of global emissions and its total share of world greenhouse gas emissions is less than 0.1 per cent. During the late 1980's annual emission of greenhouse gases amounted to about 2.6 tons per capita, lower than any other OECD country except for Turkey. But as this year's OECD report on Norway indicated the *rate of greenhouse gas emis*sions was growing at a faster rate than most industrialised *countries, particularly those of* nitrogen oxides.

However, as the OECD study *made clear: "The pattern of* greenhouse gas emissions in Norway can be largely *explained by the country's geo*graphic conditions".

Pollution in Norway is caused by the industries of other countries

Carbon dioxide emissions are low because most of Norway's electricity generation comes *from environmentally friendly* hydro-power. But as a large producer and exporter of petroleum responsible for world carbon dioxide emissions, Norway in the words of OECD "makes it very susceptible to global policy decisions in this area". The high level of nitrogen oxides in the atmosphere is due to coastal shipping transport and the fishing industry.

What environmental pollution there is in Norway is caused by the industries of other countries, such as acid rain which comes from coal-burning plants particularly in Britain, Germany and eastern Europe. Only an estimated 5 per cent of the sulphur oxide deposited over Norway comes from Norwegian emissions.

The extent of the damage this has caused to Norway has been quantified recently. The pollution of inland waters which has affected fish catch levels is calculated to cost between NKr530m-NKr610m annually, 0.1 cent of the country's GDP. The annual yield of timber lost as a result of acid rain amounts to between Kr330m-NKr650m while the annual damage caused by sulphur dioxide on fixed capital totals Nkr440m.

Norway does not devote much of its resources to pollution control, at least to judge by the latest comparative OECD data which showed it amounted to 0.8 per cent of gross domestic product compared with *1.5 per cent in the* US and 1.3 per cent in Britain.

The government has committed the country *to* pollution reduction targets that are better than the agreed international standards. It is pledged to halve emissions of sulphur dioxide by next year from their 1980 level and reduce nitrogen dioxide emissions by 30 per cent by 1998 from a base line *figure for 1986. There is a* national target of stabilising carbon dioxide emissions at the 1989 level by 2000 and a rapid phase out of halons and CFC's – manmade chemicals.

Norway has agreed to reduce water pollution by 1995 with a halving in micropollutants *compared with 1985, a 70 per* cent cut in cadmium, mercury, lead and dioxins and a 50 per *cent reduction in emissions of* nutrients such as nitrates and phosphates. It is closely involved in schemes to reduce pollution in neighbouring regions such as the Kola peninsula of *Russia* where nickel producing plants are an environmental problem. It has been estimated that NKr300m is being spent over the next five years in total transfers for the Kola project.

Moves inside Norway to encourage better treatment of the environment in the past have been based on regulatory controls. But in last year's budget there was a switch in policy to the use of the tax system to improve the country's environment and not just raise revenues for the government by making it financially advantageous for polluters to take action to reduce their costs. This year, *the budget* increased the new 1991 tax imposed on carbon dioxide emissions while the tax on mineral oil was pushed up from 65 per cent to 90 per cent and the petrol tax by 25 per cent or 12 US cents per litre for leaded petrol.

Norway's environment is likely to be improved most through international action to reduce emissions from its more industrial neighbours to the south. This ought to be a powerful argument for those Norwegians who want their country to join the EC.

Strangely enough, a large number of those who want to give a clean environment the top priority are hostile to the EC. But to be green in one country is an illusion as Mrs Brundtland can tell them.

Robert Taylor

■ INDUSTRY

Heading the right way

MR TERJE OSMUNDSEN, the deputy head of the Norwegian employers federation, NHO, is highly optimist about his country's future. "Norway is in much better shape than the statistics might suggest," he argues.

A highly articulate and persuasive champion of Norwegian mainland business, he believes the country is heading in the right direction as it becomes more market and internationally-minded.

Later this year, a study will be published on Norwegian industry, based on Professor Michael Porter's theory of competitive advantage, and it is clear already from the work done that Norway has much greater entrepreneurial potential than might have been expected.

'We need a cultural change . . . more companies must get into exports and find partners abroad'

"Our oil and gas revenues are accelerating our transformation towards a society of high technology and knowledge-based industries," argues Mr Osmundsen. "In the last few years there has been a significant change in the business climate, with a shift away from traditional welfare policies towards industrial growth."

He praises the minority Labour government for helping to stimulate the new environment and the reform in Norway's corporate taxation which came into force at the beginning of this year. This has cut the rate from 50.8 per cent to 28 per cent. The marginal rate of personal taxation has been reduced from 57 per cent to 48.8 per cent. As a proportion of gross domestic product, personal taxation is down this year to 11.4 per cent from 12.5 per cent and now lies around the OECD average.

Unlike many other western economies, Norway has a low level of tax burdens on employers pay rolls. That contribution is only 16.7 per cent, compared with 22.9 per cent as a European Community average. The net decline in Norway's tax revenue amounts to NKr5.6bn this year, equivalent to 1 per cent of mainland Norway's gross domestic product. As a proportion of total gross national product Norway's total taxes amount to 44.2 per cent this year which is 1.3 per cent lower than in 1991, and compare with the EC average of 39.9 per cent.

The modification in the output levels of carbon dioxide to bring it more into line with the European average is also welcomed by Mr Osmundsen as a sign that the government recognises it must respond positively to industry's needs.

He also points to the government's greater readiness to finance profitable infrastructure projects which make market sense, rather than meet the political demands of regional policy, its decision to increase funding for research and development, and to educational changes designed to encourage a more skilled labour force.

NHO is not completely satisfied. It continues to worry about Norway's large public sector and industrial costs, but the outlook is more promising than a few years ago. Mr Osmundsen praises the trade unions for their responsible attitude in pay bargaining which has helped to restore some lost competitiveness to Norwegian companies. "This has been an encouraging sign. There are also signs that people are working harder," he argues.

NHO is hopeful that Norway will benefit from its membership of the European Economic Area from January 1993. Mr Osmundsen points out that much industry is integrated into European markets and its increasing specialisation among small and medium-sized enterprises in niches such as information technology and shipping equipment should give Norwegian industry favourable opportunities.

"Of course, we do have some sizeable problems," he admits. "Too many of our companies are still too concentrated on the home market, and they have not devoted enough of their resources to management training."

Mr Osmundsen is also concerned at the knock-on effects of Norway's long and deep banking crisis. The larger companies still have no difficulties in funding their activities when necessary, but the tougher disciplines being imposed on the banks are making it much harder for smaller enterprises to acquire necessary capital except at exorbitantly high interest rates.

This autumn the government will unveil its proposals to abolish the country's so-called concessionary laws that inhibit foreign ownership of Norwegian industry, agriculture and property. It seems unlikely there will be complete freedom in this sensitive area, but Norway will have to adjust as part of its membership of the EEA over a two-year transition period. As Mr Osmundsen points out, foreign companies are well based in Norway. About 30 per cent of shares on the Oslo bourse are owned by foreigners and companies such as Asea Brown-Bovert, Alcatel and Siemens have successful activities inside the country.

However, Norway needs a much larger flow of inward industrial investment in the coming years which is why NHO is so favourable to the country's early membership of the European Community. "We need a cultural change," declares Mr Osmundsen. "More companies must get into exports and find partners abroad."

The government may have helped to stimulate a more favourable climate for industry but this does not mean automatic success after a long period of decline and weakness. The restructuring of mainland industry has been slow and painful. Mr Osmundsen believes the challenge now facing the business community is to make a "more aggressive response". "Our industrial base is smaller now than it was a few years ago but it is also healthier."

Robert Taylor

■ **PROFILE:** Norgeskreditt

Good reason to celebrate

NORGESKREDITT AS, the Norwegian private sector mortgage company, is at least one financial institution in the country that has not become a burden on the taxpayer. Indeed, it appears to have survived the prolonged crisis that has troubled the financial system ever since 1986.

In the first quarter of the year it made an operating profit of NKr26.9m and in 1991 it achieved a NKr100m operating profit, which represented a 15.7 per cent improvement on the previous year. "We are running a surplus and we always have done", says Mr Trond Wennberg, the company's managing director who has been in charge for the past five years.

Norgeskreditt has not been spared credit losses from bad loans but by comparison with Norway's commercial banks it has emerged relatively unscathed and has not required any outside assistance either from the state or other financial institutions.

Identified and estimated losses on loans totalled NKr9.3m for the first quarter of 1992 while last year losses amounted to NKr61.3m, of which just under half represented net realised losses.

Losses on loans last year amounted to 0.23 per cent of assets and to 0.17 per cent for the first three months of this year. Total defaulted loans after loss provisions amounted to a book principal amount of NKr96m at the end of last year. The aggregated principal on loans of more than 90 days in arrears totalled NKr160.8m at the end of March.

Its lending business is aimed primarily at medium and long-term loans to industry and commerce against adequate security

At the end of last year Norgeskreditt had assets totalling NKr21.256bn with a loan portfolio distributed among 3,650 customers across Norway. With a capital base of NKr1.732.8bn at the end of March and an equity ratio of 8.7 per cent it looks to be in a strong financial position.

Mr Wennberg is in doubt why the company has not run into the troubles familiar to so many financial institutions in Norway at the moment. "We stuck to the conservative way of running a bank," he explains. "Norgeskreditt is old fashioned".

At a time when others were rushing into real estate the company held back. This meant a loss of market share but the competitive pressures did not push Norgeskreditt into a policy it did not want to follow.

Its lending business is aimed primarily at medium and long-term loans to industry and commerce against adequate security. Norgeskreditt insists that loans have to be secured by first priority mortgages within 60 per cent and 40 per cent of the assessed value or basis of valuation established by its board for the property for both real estate and operating assets. Loans for offices, commercial premises, the public sector and housing may be secured up to 70 per cent of the same. It is the company's policy that loans should never exceed the liquidation value. Last year 95.1 per cent (NKr18.514bn) of all gross lending was to the business and public sectors and only 4.9 per cent (NKr950m) to private housing.

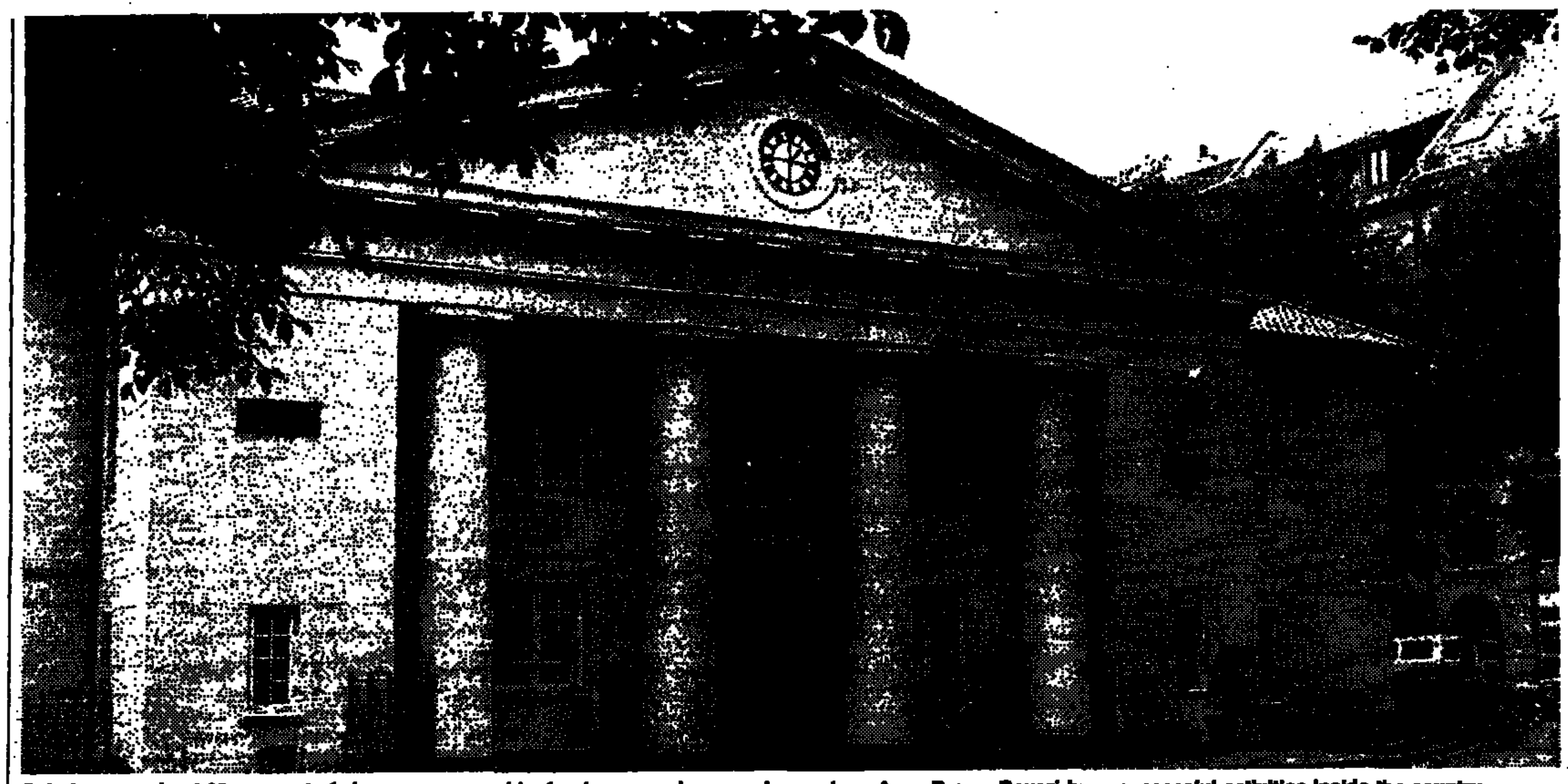
In January this year Norgeskreditt decided to become a limited company, an application that was accepted by the Ministry of Finance two months later. This move represents a response to the greater competitiveness resulting from the liberalisation of the Norwegian financial system. As the company explains in its prospectus to its NKr750m share offer at NKr100 per share: "A situation has been created characterised by increased competition where the ability of individual financial institutions to raise equity capital on favourable terms will be one of the decisive factors."

By becoming a limited company Norgeskreditt is in a much better position to raise equity capital more efficiently. Moreover, with the arrival at the end of this year of the more stringent capital adequacy requirements under the rules of the Basle-based Bank for International Settlements (BIS), it will be possible to fulfil them with a good margin by becoming a limited company.

"Now we are getting more aggressive," says Mr Wennberg. Norgeskreditt accounts for 22.1 per cent of the gross lendings of the country's mortgage institutions. By pursuing prudent policies when others were seduced by the frenetic atmosphere of the mid-1980s the company has the strength for expansion.

At a time of so much uncertainty and pessimism it appears to have good reason for quiet celebration.

RT



Oslo bourse: about 30 per cent of shares are owned by foreigners and companies such as Asea Brown-Boveri have successful activities inside the country

THE GOOD LIFE

Best place to live in Europe

MANY Norwegians might not believe it, but their country is rated the best in Europe to live in, according to a new study published by the United Nations.

After surveying 160 different countries on the basis of variables such as expected life span, economy, educational standards and use of resources, the report suggests that Canada has the highest rating followed by Japan with Norway in third place. For women in the world only Sweden is better for the good life than Norway.

The average Norwegian household spent just under $29,000 in private consumption in the 1988-90 period. Spending on rent, fuel and power accounted for 23.4 per cent, for single people it was 30.5 per cent. Families with small children spent 29.6 per cent of their income on rent, fuel and power compared with 25.7 per cent in the 1986-88 period.

A total of 19.7 per cent of household spending went on transport and communications, a fall from the 23 per cent in the earlier period, mainly due to the big drop in the number of new cars being purchased.

Food constituted 14.9 per cent of total household spending from 1988-90 with 6.6 per cent of household expenditure devoted to clothing and footwear. Beverages and tobacco accounted for 3.6 per cent of household spending, 8.0 per cent went on furniture and household equipment, 9.9 per cent on recreation and education and other goods and services accounted for 8.2 per cent.

Norwegians rank clergymen at the top of a ranking list of professional groups when it comes to credibility and high ethical standards. A recent poll suggested they scored 57 points followed by nurses with 51; doctors with 46 and policemen with 37. Advertisers are regarded as the most unreliable and dishonest group of all with only 1 point but car salesmen (2 points), journalists (3) and politicians (4) come just behind.

Five out of 10 Norwegians believe in God and life after death, but seven out of 10 do not believe in the devil or in hell. Two out of 10 pray to God at least once a day, while 38 per cent of Norwegians do not pray at all. An estimated 15 per cent of the population have contact with the church and Christian life, though seven out of 10 have great doubt and religious uncertainty.

As many as 77 per cent of Norwegians thought it was possible to be a good Christian without going to church or chapel.

The Cold War may be over but most Norwegians are in favour of a strong defence for their country. As many as 86 per cent polled recently said they were in favour of national defence compared with 81 per cent in 1991. Even 82 per cent of young people aged between 15 and 19 believe this, with strong support on the far left of Norwegian politics as well.

Norwegians are drinking less alcohol than they used to. There was a 2.3 per cent fall in consumption last year, part of a downward trend that began in 1988. The average consumption of spirits among all Norwegians over 15 years old was 4.9 litres of pure alcohol per year. Norwegians spent $4bn on alcoholic beverages last year.

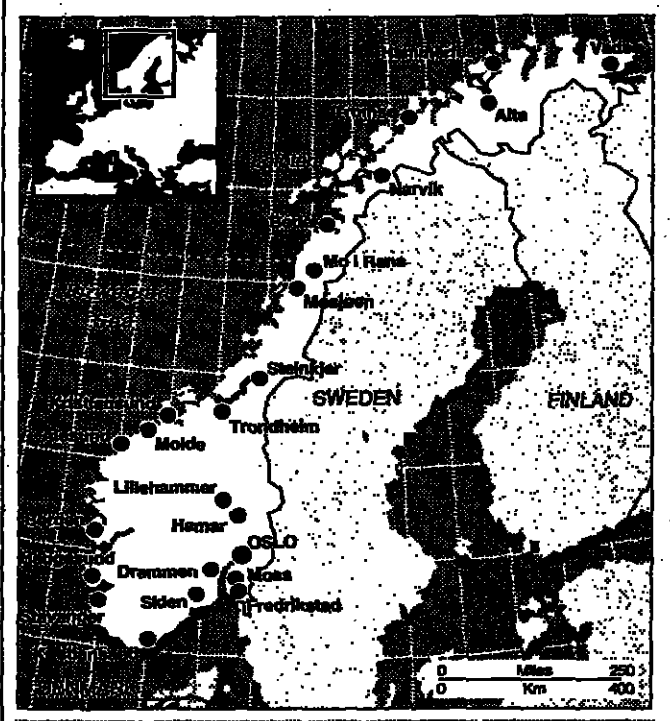
Only 95,000 jobs have been created in Norway over the last 10 years and 75,000 of them are in managerial positions, according to the Central Bureau of Statistics. In 1981 only 4 per cent of female workers had management positions and 25 per cent of men were in managerial positions. Now 29 per cent of men are in that position and 10 per cent of women.

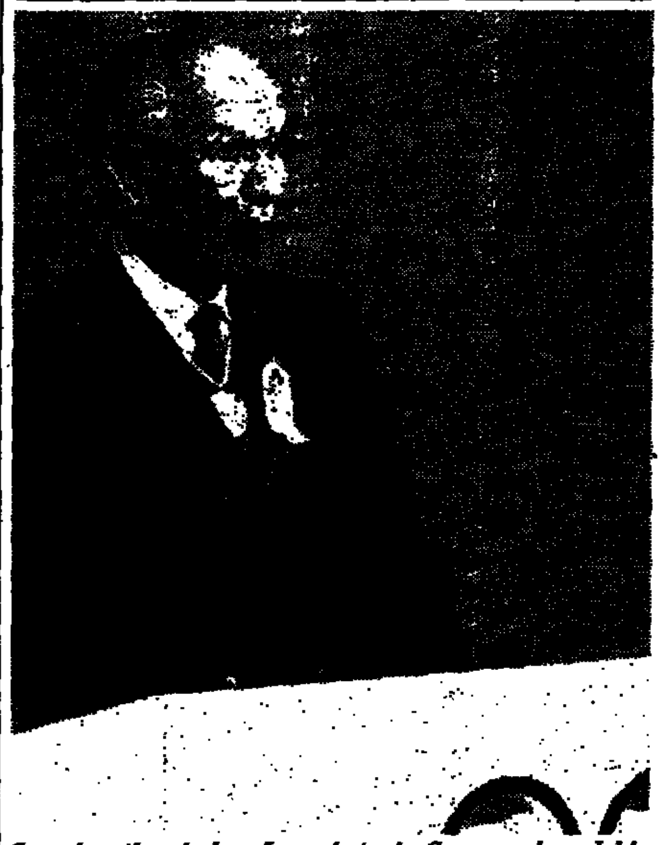
Robert Taylor

Compiled from data from the Norwegian Information Service

Karen Fossli looks at the 1994 Olympics in Lillehammer

Where to spend the winter





Squaring the circles: Juan Antonio Samaranch and his colleagues have been criticised for their elitist approach

LAST February, at the conclusion of the 16th Winter Olympics, the French city of Albertville passed the flag of the five rings on to Lillehammer, a sleepy Norwegian town two hours' drive north of Oslo, which will host the next winter games in 1994.

In the best possible marketing scheme for Lillehammer that could have been devised, the Norwegians took Albertville by storm, winning nine Olympic golds, six silvers and five bronze medals.

Their success is expected to attract tens of thousands of tourists to Oslo and Lillehammer in February 1994 and, it is hoped, thereafter. Up to 100,000 people will attend the 1994 games, it is estimated.

However, controversy over the NKr13bn investment for the Lillehammer games has dominated domestic headlines alongside more important concerns such as Norway's record high post-war unemployment and health care queues. The prospects for 1994 have lifted the spirits of many Norwegians. But it will take time for morale to recover from the deep economic recession of the past few years.

Take Asborg, for example – a single, unemployed mother of three – for whom the Lillehammer Olympics evokes only mixed feelings: "My children are very proud that Norway will host the games but with the economy the way it is I can't help but feel that the money could be better spent.

"And there are all those stories about the organisers . . . the elitists who are living the high life at the expense of the taxpayers. But I truly hope the Olympics will be good public relations for Norway. I have German and American friends already looking forward to Lillehammer who otherwise would never have visited Norway," Asborg says.

That is precisely what the organisers are counting on: first-time visitors will return to Norway after the games, while millions of television viewers all over the world will be inspired to visit after being won over by Norway's wholesomeness and charm in a relentless PR saturation exercise, lasting several hours every day for more than two weeks.

"The success of the Olympics hinges to a great extent on our success with the media side of things," one of the organisers said recently. But some Norwegians can't help but feel that the timing for Norway's hosting of the games is just slightly awkward.

Lord of the Rings, a book by Vyv Simson and Andrew Jennings of Granada TV's World in Action team, does little to stem the embarrassment of those who, like Asborg, are more concerned about such social problems as health care and unemployment then they are about the number of cars which roll into Lillehammer on any given day.

It criticises the elitist aspect of the Olympic organisation, with particular emphasis on Mr Juan Antonio Samaranch, the International Olympic Committee's president, and his inner circle. But LOOC's organisers, facing a daunting task ahead of 1994, tend not to get bogged down in criticism and controversy which they say comes with the job. "The discussion over investment and snobbery is something many of us simply have to live with. I think this is a healthy and good project which puts Norway in a totally new international position," says Mr Aage Enghaug, LOOC's senior vice-president of information.

The Norwegians, admittedly, have ulterior motives in staging the games rather than just for the sake of sport. And who can blame them? The games provide a unique opportunity to promote Norway and stimulate tourism, particularly in Hedmark and Opland, the country's two counties which do not have access to the sea.

"The continental regions in the eastern part of the country have hardly profited from the growth experienced by coastal regions over the last decades," says the Olympic Triangle, a collaboration between the county boroughs and municipalities in the Lillehammer region. It believes that investment in the Olympics will not only help to develop their region as a popular tourist attraction and educational centre but will also contribute towards improving infrastructure and expanding jobs.

LOOC is going to great lengths to present Norway as a country founded on strong, simple traditions which allow a high standard of living without the excesses of materialism.

Central to this image is the fact that winter sports are part of the country's national identity. Ancient petroglyphs depicting 4,000-year-old skiers from the Stone Age have been discovered and LOOC is *exploiting them to the full.*

Skiing is deeply embedded in Norwegian tradition; a 12th century skier is featured on the city of Lillehammer's coat of arms. Among other cultural events, the opening and closing ceremonies of the Olympics will highlight Viking folklore and old Norse mythology.

As Thor Heyerdahl, the anthropologist, put it: "Norway, the land of the Vikings in the far north, the country that has held her doors open to distant expeditions for more than *1,000 years, is now inviting all* the people of the world to cross her boundaries in friendly rivalry" in what LOOC is calling the country's greatest-ever festival.

The Olympic facilities are *already about 60 per cent completed.* They will be finished for the 1993 winter season when a number of winter sports competitions will be staged to test Lillehammer's preparedness.

KEY FACTS

Area	323,895 sq km
Population	4.242m (mid 1990)
Head of State	King Harald
Currency	Norwegian Krone
Average exchange rate	1991 $1 = 6.4829 Latest $1 = 6.1555

ECONOMY	1990	1991
Total GDP ($bn)	105.8	107.5
Real GDP growth (%)	1.8	4.1
GDP per capita ($)	24,941	25,235
Components of GDP (%)		
Private consumption	50.4	n/a
Gross fixed investment	18.9	n/a
Stockbuilding	2.4	n/a
Government consumption	21.0	n/a
Exports	44.0	n/a
Imports	36.7	n/a
Consumer prices (% chg pa)	4.2	3.4
Unit lab costs (% change pa)	3.3	3.2
Ind. wage rates (% change pa)	5.8	5.5
Ind. production (% change pa)	3.6	2.1
Unemployment[1] (% lab force)	5.2	5.5
Reserves minus gold ($bn)	15.33	13.23
Narrow money growth (% pa)	10.5	6.8
Broad money growth (% pa)	6.0	10.6
Discount rate (% pa year end)	10.5	10.0
Govt bond yield (% pa avg)	10.68	9.96
FT-A index (% chg over year)	2.21	-12.47
Budget deficit (% of GDP)	0.8	-3.3
Current account balance ($bn)	3.53	5.07
Exports ($bn)	33.91	34.08
Imports ($bn)	27.22	25.29
Trade balance ($bn)	6.69	8.79
Main trading partners (1990)	Exports	Imports
UK (% of total)	26.2	8.9
Sweden	11.6	15.6
Germany	11.1	13.9
North America	10.0	14.0
Denmark	4.8.	6.6
EC	64.6	45.7
EFTA	15.8	21.3

Note: 1 Unemployment rate is measured on ILO standardised basis
Source: IMF, OECD, Economist Intelligence Unit, Datastream

INDIA

India is not moving fast enough to implement much-needed economic reforms. The Bombay stock market scandal and a poor monsoon this year will add to its problems of inflation and the balance of payments, writes **David Housego**

Chances are slipping away

THE RADICAL reforms announced last year by Mr. P. V. Narasimha Rao's new Congress administration made many friends of India feel that the country – which has been a slow runner among Asian nations – could be poised for a period of rapid change. But the government is now in danger of letting these opportunities slip away.

Mr Rao, the prime minister, has a clear sense of the path that India must take in the wake of the collapse of two historic cornerstones of Indian economic and foreign policy – Jawaharlal Nehru's concept of economic self-sufficiency, which ran aground last year when India came close to defaulting on its international debt payments, and friendship with the Soviet Union, which fell apart with the disintegration of the Communist empire.

The prime minister is committed to making the Indian economy more internationally competitive and to achieving growth through higher exports. He sees the need for closer ties with the US, both to mobilise aid and investment and as now the only superpower with the leverage to exert pressure on India's adversary, Pakistan.

Mr Rao has his eyes on a comprehensive settlement with Pakistan that would cover the disputed issues of borders, Kashmir and nuclear rivalry – and which could pave the way for arms reductions on both sides. He also recognises that market economics require a far larger devolution of power to the states than was palatable to most members of the Nehru family.

This programme of internal and external restructuring marks a substantial change of direction for a country that ploughed the same furrow for too long. But between knowing where he wants to go and getting there, the prime minister has lost his nerve.

Over recent months, he has begun to flounder politically. Uncharacteristically, he was knocked off balance by allegations that he had a hand in the cover-up of commission payments to Bofors, the Swedish arms manufacturer. Then, he made a serious tactical blunder in treating an internal election to the Congress party's main policymaking organisation as a challenge to his power.

His short-term difficulties are likely to be exacerbated by two problems that now loom large on the horizon. The Bombay stock market scandal – in which banks and financial institutions stand to lose Rs30bn through fraudulent securities dealings – threatens to paralyse the administration as allegations grow that senior ministers and civil servants were involved. It has already resulted in a drying up of funds in the stock market, the interbank market and even retail trade.

The other major problem is the growing danger that after four years of good monsoons, the rains could fail this year – thus pushing up prices beyond the already high 12-13 per cent inflation rate. If the drought, already widespread in Maharashtra, Madhya Pradesh and Rajasthan, grows worse or spreads, the government could find itself faced with widespread unrest and violence.

An elderly, cautious patrician, Mr Rao sprung a surprise last year by the radical response of his government to the threat of debt default – and more surprises could be in store. He then carried through an unexpectedly large 25 per cent devaluation of the rupee and extensive trade and industrial deregulation.

Mr Rao followed this up this year with a budget that made the rupee partially convertible, brought down the budget deficit to a projected 5 per cent of GDP for 1992-93 and initiated tax reforms.

Over the last year, the prime minister has transformed what had begun as a minority government in the parliament into one that has a *de facto* majority. By contrast, the Opposition – the Hindu Bharatiya Janata Party (BJP), the Janata Dal and the left – have been weakened through their own internal divisions.

Yet, Mr Rao's failure as a reformer stems from his reluctance to confront the powerful lobbies that have long resisted change in India.

He has postponed promised reductions in the fertiliser subsidy because of opposition from farmers. He has put off reductions in the size of the civil service and the public sector and a halt to inflation-adjusted wage increases because of union opposition.

The unions have also held out so far against privatisation and the introduction of more flexible labour practices in industry.

Industry itself has successfully resisted tariff cuts that would draw blood through the competition of foreign imports. Dr Manmohan Singh, the finance minister, announced in the budget that the maximum tariff would be reduced to 110 per cent and that tariffs would come down over the next three years to levels comparable with other developing countries. But the effect of tariff-cuts so far on industry has been offset by the impact of a sharply depreciating currency.

Will India, which has ploughed the same furrow for too long, make a substantial change of direction? The Dhoby Ghats – a big public laundry – in Bombay (Photograph by Glyn Genin)

Mr Rao's reason for avoiding confrontation is that a country that is socially as fragile as India cannot afford further division and secondly that change requires a consensus. But with the government dithering, the momentum of reforms has been lost and opposition lobbies have been able to entrench themselves more deeply.

The delays are trying the patience of the IMF and the World Bank, and of bilateral donors to whom India is looking for a further $8bn in exceptional balance of payments financing this year. They are one of the reasons why the sharp increase in foreign investment approvals – indicating a growing interest in gaining a foothold in India – have not been followed up by substantial inward equity flows.

But most of all, the slow pace of adjustment will mean a slower growth for the economy over the longer run. Already, India is piling up future bottlenecks by postponing urgently needed decisions over telecommunications, power and other infrastructure projects.

The budget, equally, reflected a shortsighted tactic of sacrificing future growth to avoid present pain. The cuts in the deficit were achieved more from reducing capital investment than current spending.

But the major constraint on future growth is the potential shortage of foreign exchange needed to finance imports – hence technological change and higher productivity. With an outstanding foreign debt of $74bn, India no longer has the access to the international commercial markets it had in the 1980s and foreign investment is still relatively small.

Its foreign exchange requirements will thus have to come from an expansion of manufacturing exports, which reflects a major restructuring of industry and a reduction in its cost levels. With exports still growing slowly, there are not as yet the signs of a change of the magnitude required.

India is already experiencing its second year of low growth. Real GDP this year, as last, is likely to increase by only 2-3 per cent – or by not much more than the growth in population. The surest way to prepare the ground for a return to the caste, communal and ethnic violence India witnessed 18 months ago would be a prolonged period of slow or average growth.

The same caution that Mr Rao has brought to economic reform he has applied to his handling of India's foreign relations. The two overlap since he feels that, until he is more comfortable at home, he cannot take risks abroad.

Mr Rao quickly recognised that with the collapse of the Soviet Union, India needed US support to exert pressure on Pakistan and to obtain substantial funding through the World Bank and the IMF. President Sadat looked to the US in

Continued on Page 2

IN THIS SURVEY

Scandal that just had to happen

Harshad Mehta (above) is the broker at the centre of Bombay's shares scandal. **Richard Waters** reports on a financial system ripe for abuse

Editorial production Gabriel Bowman

THE ECONOMY

Radical changes needed to achieve export growth

THE OUTLOOK for the Indian economy contains one unexpectedly bright feature and some disquieting ones.

The most positive feature is that a year after the country came close to defaulting on its foreign debt repayments, the foreign exchange reserves had climbed by end-April to an unexpectedly high $5.4bn – equivalent to just over three months' imports.

The leeway that this provides has principally come from once-and-for-all emergency cuts in imports and exceptional external financing from the IMF, the World Bank and the donor nations.

The disquieting features are that inflation has remained insistently high. As against a target agreed with the IMF that inflation would fall to 9 per cent at the end of fiscal 1991-92 year in March and to 6 per cent by March 1993, the inflation rate has hovered around the 12-13 per cent mark over the last nine months.

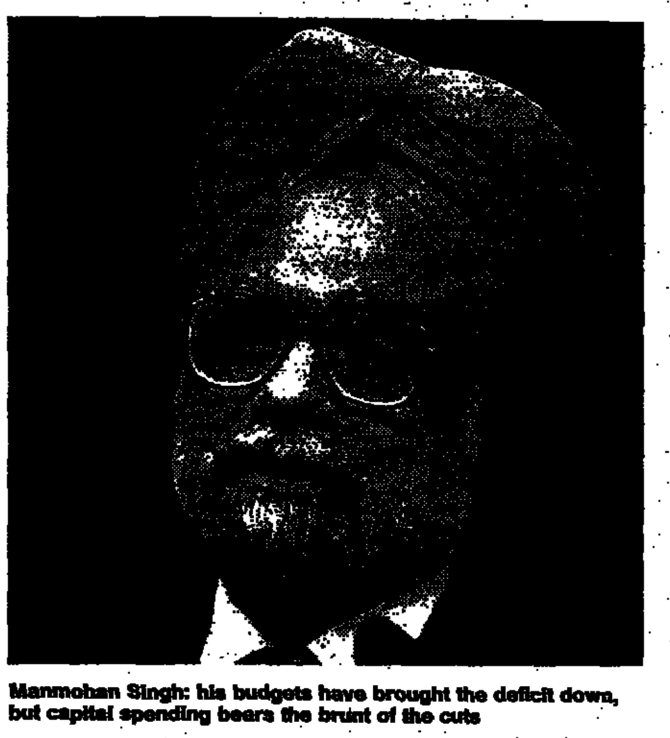
If the drought in parts of the north is exacerbated by a bad monsoon over the coming months – current forecasts suggest well below normal rainfall – this could add seriously to the upward pressure on prices.

Real growth in GDP is for the second year running likely to be at a low for the decade of 2-3 per cent. Growth in industrial output picked up in February – rising by 3.4 per cent as compared with 12 months before – but was zero or negative for 1991-92 as a whole. This was due to both government-imposed curbs on imports and to the squeeze on domestic demand caused by the tight credit policy of the Reserve Bank of India (the central bank) and thus higher interest rates.

The third disquieting feature is that there is little sign of export growth picking up at a pace necessary to meet India's import and debt repayment requirements. Exports in dollar terms actually declined a little in 1991-92 to $18bn – mainly as a result of the collapse of the Soviet market. This year – with hard currency markets still sluggish as a result of the recession – exports are unlikely to grow in dollar terms by more than 6-8 per cent as compared to the 15-17 per cent achieved in the late 1980s.

The overriding question for the economy is whether these elements reflect the temporary difficulties of readjustment, or whether they carry the risk of the economy running aground in the quagmire of stagnant growth, unacceptably high inflation and persistent balance of payments difficulties. The prospect of a bad monsoon adds to the difficulties.

Mr Deepak Nayaar, the former chief economic adviser who believes that India runs the risk of South American-style stagflation, draws the conclusion that policy should give first priority to reducing deficits and inflation. He fears that if stabilisation is combined with an ambitious restructuring programme – particularly if the economy is opened up to higher levels of imports – India faces the risk of continuing depreciation of the currency, higher inflation and low economic growth.



Manmohan Singh: his budgets have brought the deficit down, but capital spending bears the brunt of the cuts

The World Bank and the IMF share some of these doubts about the economy's short-term performance. But they are pushing for more radical change – increased labour flexibility, privatisation and major reforms in the financial sector to achieve more efficient credit allocation – as necessary to improve international competitiveness and exports.

It is disputes about the pace of these reforms – with the government agreeing over the direction but hesitant over the timing – that is holding up World Bank sectoral loans to India and further IMF low interest funds.

That India came close to default a year ago was a result of the government's failure in the 1980s to bring the budget and balance of payments deficits under control. Real GDP in the late 1980s rose by an annual average of 6 per cent. But the budget deficit rose to 8-9 per cent of GDP and the current account deficit in 1990-91 to 3.5 per cent of GDP.

The two budgets presented by Dr Manmohan Singh, the minister of finance, have brought the budget deficit down in line with IMF targets – to 6.5 per cent of GDP in 1991-92 and to a projected 5 per cent in the 1992-93 budget put before parliament in February.

But in practice the stabilisation programme has been less tough than these figures suggest. The 1991-1992 target was achieved with the help of accounting devices such as the postponement of fertiliser subsidy payments.

More worrying for the future, the projected reduction in the deficit this year is being achieved more by cutting capital spending (infrastructure, health, rural development) than current spending (subsidies, wages and public sector employment). Thus as a proportion of GDP, capital spending will fall by 2.1 per cent over the two years to March 1993 while current spending will fall by only 1.2 per cent.

The insufficiently tight rein on fiscal policy has helped fuel a faster rate of monetary expansion than anticipated and hence higher inflation. The broad measure of money supply (M3) rose last year by 19 per cent as against a central bank target of 13 per cent. Most of this came from the build-up in the foreign exchange reserves. But government borrowing from the banking system rose by 25 per cent.

Since April, it has become harder and costlier for the government to finance its deficit from the banking system. The statutory liquidity ratio (SLR) by which the banks are required to lodge a proportion of their deposits with the Reserve Bank was cut from 38.5 to 30 per cent and the government has also begun to auction treasury bills – meaning it must pay a market price for its own borrowings.

But until these shifts in monetary policy, the impact of high interest rates had fallen on the private sector. Prime corporate borrowers now pay 19.7 per cent. The high cost of money together with the import curbs were the two most important factors behind the slump in industrial growth last year. After rising by an annual average of 8-9 per cent over the last few years, the growth in industrial output was flat or negative in 1991-92 as a whole.

The emergency curbs on imports – including a 200 per cent cash margin on opening a credit line – were primarily responsible for the slashing of the current account deficit in 1991-92 to $3bn from $8.5bn the previous year. Imports, which accounted for 9 per cent of GDP in the late 1980s and which through foreign tie-ups and technology transfers were responsible for much of the increased productivity in the economy, fell by 30 per cent to $20.7bn (balance of payments figures).

With the major improvement in the foreign exchange reserves, the import restrictions were lifted earlier this year. The World Bank expects that even if imports rise in dollar terms this year by 20 per cent, they will still be below the 1990-91 level and thus lower in real terms and as a proportion of GDP.

What is clear, however, is that the limiting factor on restructuring and growth in the coming years will be India's capacity to finance the higher imports needed to achieve faster technological change and higher rates of productivity.

In the 1980s India was able to finance imports with the help of commercial borrowings abroad. But since last year this avenue has been largely closed because of the nervousness of foreign banks about India's creditworthiness.

India also faces a larger burden of debt repayments than it did in the 1980s. With outstanding foreign debt of $74bn – or 27 per cent higher than five years ago – repayments of interest and principal will this year account for 30 per cent of export earnings. Amortisation payments will almost double over the next few years from $3.6bn this year to $6bn in 1996-97.

Though foreign investment approvals have climbed sharply since the change in policies, their contribution in balance of payments terms is relatively small. By the mid-1990s direct foreign investment inflow could, on present trends, reach at most $1bn a year.

Last year the World Bank, the IMF and the donor nations contributed $3.7bn in exceptional external financing. India is this year seeking exceptional financing of about $3bn. But some donor nations including Japan are increasingly reluctant to contribute.

All this underlies the necessity of more structural radical changes needed to achieve much higher export growth. Without this, India could find itself heading for another balance of payments crisis.

David Housego

KEY FACTS

Area	3,287,590 sq km	
Population	843.6 million (1991 estimate)	
Head of State	President R Venkataraman	
Currency	Rupee (R)	
Average Exchange Rate	1990 $1=Rs17.5, 1991 $1=Rs22.7	

ECONOMY	1990	1991
Total GDP ($bn)	281.2	251.3
Real GDP growth (%)	5.0	2.0
GDP per capita ($)	340	298
Origin of GDP (%)		
Agriculture	31.7	31.5
Industry	28.7	28.8
Services	39.6	39.6
Consumer prices (% change pa)	9.0	13.8
Reserves minus gold ($bn, Dec)	1.5	3.6
Money growth (M2, % pa)	12.4	17.9
Lending rate (% pa)	16.5	17.9
Total external debt ($bn)	70.1	77.2
Debt service ratio (%)	24.6	27.0
Debt per capita ($)	85	92
Current Account Balance ($bn)	-8.9	-6.4
Exports ($bn)	18.9	19.0
Imports ($bn)	26.0	23.8
Trade Balance ($bn)	-7.1	-4.8
Main Trading Partners (1989, % by value)	Exports	Imports
EC	24.9	33.0
US	16.1	12.0
Japan	9.5	8.0
Development Indicators	15-20 yrs ago	latest estimate
Dependency ratio*	43.6	41.4
Urban population (% of total)	21.5	27.5
Population growth rate (% pa)	2.3	2.1
Infant mortality rate (per thousand live births)	129.6	95.4
Adult illiteracy (% aged 15+)	65.9	56.5
Population per doctor ('000s)	4.9	2.5
Life expectancy (years)	50.4	58.5

* = % of population aged under 15 or over 65

Sources: IMF, World Bank, Economist Intelligence Unit

Chances are slipping away

Continued from Page 1

a similar way to enlist its support against Israel.

India has made some modest steps towards drawing closer to the US – including the diplomatic recognition of Israel and joint Indo-US naval exercises. Mr Rao's task has not been made any easier by the clumsiness of US diplomacy in handling disputes with India over trade, missile technology and nuclear proliferation.

Within the country, there is also a growing recognition that India – no more than Pakistan – can indefinitely defy world concern over the risks of nuclear rivalry. India is thus showing more readiness to pursue confidence-building measures with Pakistan and to accept US observation of missile tests.

There is also a recognition that any agreement with Pakistan over the nuclear issue would have to be part of a broader settlement. India is now signalling that it is ready for border adjustments, an open frontier and the resumption of normal trade. A peace treaty allowing both sides to make substantial reductions in defence spending and which would have been unthinkable a few years ago is at least imaginable now.

The real issue is whether the governments in Delhi and Islamabad will have the strength to overcome the lobbies in their own countries that are hostile to such detente. With Mr Rao, the hesitations have the upper hand.

So far, the government has sidestepped the issue of devolution of power to the states. But the states themselves are becoming increasingly exasperated with a central government whose overriding powers they resent and which cannot meet their demand for resources.

States are beginning to compete among themselves for private sector, foreign investment and aid funds. The disintegration of the Soviet Union and the resurgence of ethnic and regional movements have opened their eyes and ambitions.

In India there is a reluctance to face up to problems until action proves unavoidable. Myopia over macro-economic management brought India close to defaulting on its international debt last year. The external support now being provided by the World Bank, the IMF and the donor nations provides India with a breathing space in which to carry out much needed structural change. The risk of not doing so is that India will drift into another crisis.

Congress has regained self-confidence. But one issue now dominates politics, says **David Housego**

Rao faces storm over market abuses

WHEN PARLIAMENT reconvenes next month for the monsoon session, there will be one issue on the agenda – the government's handling of the Bombay stock market scandal.

Opposition leaders have already claimed that ministers are involved. They seem likely to press their demands for the resignation of Mr S. Venkitaramanan, the central bank governor, and for Dr Manmohan Singh, the finance minister, as the two men who should accept moral responsibility for the abuses that occurred.

But as yet, the political fallout of the stock market scandal has still to make its full impact on political parties or public opinion. Interpreting the results of a handful of by-elections held earlier this month, a Congress party spokesman triumphantly claimed that their message was that "that the nation has no alternative to the Congress and the Congress *has no alternative to Mr P. V.* Narasimha Rao".

This is the hyperbole of party political machines. Nonetheless, *the claim reflects what* had been a growing self-confidence within the Congress. A year ago the party would have been *ridiculed if it had dared* to make it.

The Congress was returned to power in 1991 as the single largest party in parliament, but it lacked an absolute majority. In the election it gathered only a handful of seats in the Hindi-speaking north – once the stronghold of its power – and the bulk of its new parliamentary membership came from the south and west.

With the assassination of Mr Rajiv Gandhi *during the* election campaign – and thus the end of the Nehru family's long domination of Indian politics – Congress looked a rudderless ship. Mr Narasimha Rao, 71, was a compromise choice to head the party. He seemed to have little chance of imposing his will on it or on the government he formed.

By contrast, the Hindu Bharatiya Janata Party (BJP), which surged in strength in the 1989 and 1991 elections on a platform of anti-Moslem sentiment and populist national rejuvenation, seemed rattling *at the doors of power.* It won 128 seats in the 1991 election and also consolidated its grip over state assemblies in the *north. It is in power* in Uttar Pradesh, Madhya Pradesh, Rajasthan and Himachal Pradesh.

Many political observers thought that the combination of a weak Congress and a resurgent BJP would result in *a political instability that* would force an early general election. But this month's by-elections – though only a partial indicator – confirm the shift in the landscape that has taken place since last year.

The Congress regained the New Delhi constituency that Mr L. K. Advani, the BJP leader, won in the 1991 election and gained a state assembly seat in the north. It lost seats in the south – but nonetheless its performance was much better than the BJP *which found* itself on the retreat in most areas where elections were held.

There is thus no longer talk of an early general election. The government faces a stormy passage over both the political fall-out from the financial scandal and unrest over high prices and a bad monsoon. But this parliament could still last another two years – or even run its full term.

Mr Rao's hesitation over taking decisions and *his reluctance to face confrontations with powerful* lobbies such as the unions and the farmers have, if anything, grown since he became prime minister

The cold calculation behind this is that no political party has an interest in an early election. The Congress wants to wait until it has refurbished its image, brought down inflation and until the economic reforms have had time to show what are hoped to be their beneficial effects. The BJP is equally unwilling to risk a poll at a *time when its own popularity* is waning and the BJP governments in the northern states have yet to make an impact. *The Janata Dal and the left are* also too fragmented and too disorientated to seek an early election.

This turnaround in Congress fortunes has mainly been due to Mr Rao. He declined to bring any of the other parties into a coalition when he came to power – preferring to seek a fresh majority in parliament on different issues and counting on divisions within the opposition to work to his advantage. This strategy has worked.

The Janata Dal of Mr V. P. Singh, the former prime minister, has disintegrated over the year with some of its factions now supporting Congress from the outside and some joining it. With Mr Advani, the BJP leader, Mr Rao sought *ad hoc* alliances to pass key reforms such as the first budget and the earlier measures of trade and industrial deregulation. But this cosy working relationship has run into opposition from the rank and file of both parties who want a more confrontational relationship that allows them to establish their different identities and to mark the differences.

Nonetheless, with the help of *defections and windfalls such* as the holding of postponed elections in Punjab, which were boycotted by the Akali *(Sikh) parties, Mr Rao has a de facto* majority in parliament. The Congress also benefits electorally from being perceived as a party with a programme.

Liberalisation has its enemies – both within the party and without – but the Congress is now building an image as a party of change. In the past, disillusionment with Congress as a tired institution more preoccupied with patronage than policy played a large element in the erosion of its support.

By contrast to the modest recovery Congress has been making – it still remains weak in the north – the BJP has allowed its advantages to fritter away. It did itself much damage in January by its march on Kashmir. An occasion intended to mobilise Hindu opinion behind a nationalist campaign to show that Kashmir was an integral part of the Indian union, it ended up by revealing the vulnerability of the Indian state in the face of Kashmiri nationalism. The march also broke the myth of the BJP as a successful organiser of mass populist *movements.*

The failure of the Kashmir march also showed up the divisions within the BJP leader*ship – a party that has* prided itself on its discipline and unity. Its image received a further blow when one of its female activists – and an MP as well – attracted large publicity as a result of an alleged affair with a another senior party leader. Adding to its woes, the younger generation in the party has been frustrated that they have been given no real access to power.

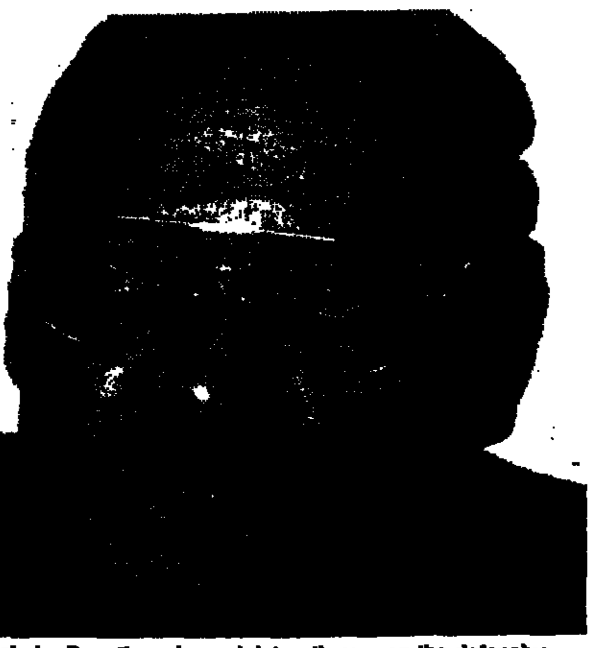
The paradox in all this is that before the financial scandal broke, Mr Rao was not able to exploit more fully the growth in confidence of the Congress party and his own authority within it. As prime minister, his hesitation over taking decisions and his reluctance to face confrontations with powerful lobbies such as the unions and the farmers have, if anything, grown.

He called a meeting of the All India Congress Committee (AICC) – the party's main policymaking forum, which meets at only rare intervals – at Tirupati in the south in April. The occasion was intended to endorse his own leadership over the party and to give him a freer hand in pursuing his reform programme.

But after the conference did just that, Mr Rao seemed to stumble and has not recovered *his footing since.* He took elections to the party's working committee – which handles day-to-day management of the party – as a challenge to his authority. He called on the 10 elected members – including Mr Sharad Pawar, the defence minister, and Mr Arjun Singh, the natural resources minister, to resign. Both refused.

Mr Rao then took a long time to find a compromise to his party problems. He also postponed a cabinet reshuffle – in part needed to replace Mr M. Solanki as foreign minister. Mr Solanki *was forced to* resign after handing over a letter to the Swiss authorities requesting them to go slow on investigations into the payments of commission by Bofors, the Swedish arms manufacturer, to win an Indian arms contract.

The opposition alleges that part of Mr Rao's indecisiveness and discomfort since then is that he was more aware of the contents of the letter than he has let on. It is the resurrection of the Bofors affair that makes the government even more on the defensive when *faced with charges that* ministers were involved in the Bombay financial scandal.



Narasimha Rao, the prime minister: thrown on the defensive

Profile: ARJUN SINGH

Socialist roots of a master tactician

ON THE shelf of his *study at his home in* New Delhi, Mr Arjun Singh, minister for human resources and a future contender for the premiership, has a bust of Lenin. He defends the founder of the Soviet Union as a radical reformer. "As a human being, he has a right to a home".

But to the visitor, the portrait of Lenin is a signal of where Mr Arjun Singh wants to position himself in the Congress party. In contrast to Mr Narasimha Rao, who comes from the south and has become a protagonist for economic liberalism, Mr Singh is *from the Hindi-speaking north* and voices the party's socialist roots and the anguish of its traditional electoral base among the rural poor.

Mr Rao sought to silence Mr Singh's criticism of the government's shift to pro-market policies by naming him as chairman of the committee set up to draft the economic policy document presented to the party's main policy-making body – the All India Congress Committee – at its session at Tirupati in April.

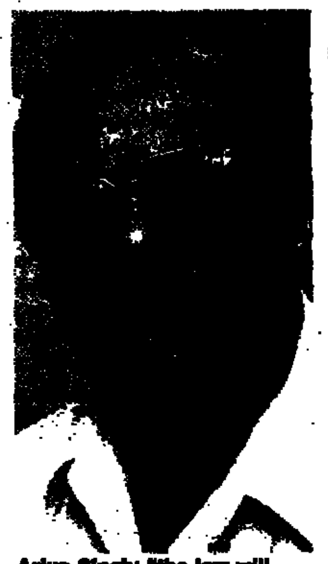
A master tactician, Mr Singh characteristically drafted a policy platform that had the party facing two ways at once – endorsing the Nehruvian socialism of its past while giving Mr Rao a free hand over liberalisation. But the statement in the document that there will be no retrenchment in the public sector – only retraining – bears his hand.

At the same time Mr Singh used the Tirupati session to distance himself from Mr Rao and demonstrate his credentials as his successor. He urged elections to the Congress Working Committee (CWC) which runs the day-to-day affairs of the party – a departure from a past in which Mrs Gandhi and her son Rajiv nominated loyalists to the party's top jobs.

In the election that followed, Mr Singh was the candidate who won most support with 435 votes. Working hand in hand with Mr Sharad Pawar, the minister of defence, he organised a list of names that won bloc support from the northern states. Mr Rao was miffed at what he considered a challenge to his authority and asked all those who were elected to resign. Both Mr Singh and Mr Pawar refused.

After weeks of deadlock, the two ministers came up with the compromise that they would resign if Mr Rao at the same time nominated them to the committee. The prime minister agreed.

Having made his point, Mr Singh now pooh-poohs any idea that he is a contender for the post of party leader or prime minister. "Not by any chance," he says. "Don't be under a false illusion."



Arjun Singh: "the law will take its own course"

He adds: "What I consider of primary importance is that we have to maintain unity in the Congress party and remain solidly behind the prime minister."

Urbane and unfailingly courteous, Mr Singh does not look the socialist politician that he was before joining the Congress. A voracious reader and a pragmatist, he would probably adapt his policies to circumstances as prime minister.

Mr Singh has responsibility for education as minister for human resources. But he shows no sign of bending to pressure from the World Bank and the international donor community to make primary education compulsory. "To bring in compulsion does not go well," he says.

A former chief minister of Madhya Pradesh – the large central Indian state where the BJP is now in power – Mr Singh also leads the wing in the Congress that favours confrontation with the Hindu radical party. He has been at odds on this with the prime minister, who believes that the Congress needed BJP support to pass its economic policies.

Mr Singh had to step down from the post of chief minister in 1989 after his family was implicated in a lottery scandal in the state. Now he takes a tough attitude towards foreign banks which have overstepped the law in the Bombay stock market scandal. "The laws of the country have to be observed," he says. "If they have violated the laws – Indian or foreign banks – the law will take its own course."

David Housego

The scandal that just had to happen

The financial system is ripe for abuse, writes **Richard Waters**. In recent weeks, the stock market bubble has burst after a share purchase scandal that centred on the Bombay interbank market

THE SCANDAL that has engulfed India's financial establishment this year threatens to stop the reform of the country's financial markets in its tracks.

Centring on the Bombay interbank market, but spilling over into the stock market, the scandal is a typical product of careless financial deregulation: markets were allowed to develop faster than either regulators or market infrastructure were able to cope with.

Mr Harshad Mehta, a young broker who won a cult following for his aggressive share buying over the past year, exploited this weakness to the full.

For months, the financial community had been asking where Mr Mehta raised the money to make his daring share purchases. The answer is now clear: he and other brokers succeeded in drawing Rs30bn illicitly out of the interbank market, according to the Reserve Bank of India. The victims were banks which traded through Mr Mehta and other brokers, among them State Bank of India, National Housing Bank and Standard Chartered. Officials from the first two banks are among those who have been charged with fraud, along with Mr Mehta and others.

The scandal has emanated from the market for bankers' receipts – the product of a uniquely Indian blend of excessive administrative control, inadequate regulation and antiquated systems. Banks are forced to put 30 per cent (until April, 38.5 per cent) of their deposits into low-yielding government debt. This has prevented the creation of a normal interbank market, in which banks deposit surplus cash with each other.

In its place has grown a market in repurchase agreements (or "repos", known in India as "ready forwards") – arrangements under which a bank sells securities to another bank and agrees to buy them back up to 90 days later (or *vice versa*). That way, banks can raise short-term cash without incurring the statutory reserve requirements.

The second peculiarity of the Indian financial system is that transfers of government securities are still entered by hand in a ledger maintained by the Public Debt Office. Powerful unions have held back computerisation, though the Reserve Bank of India, the country's central bank, says it hopes to have automated the process by this summer.

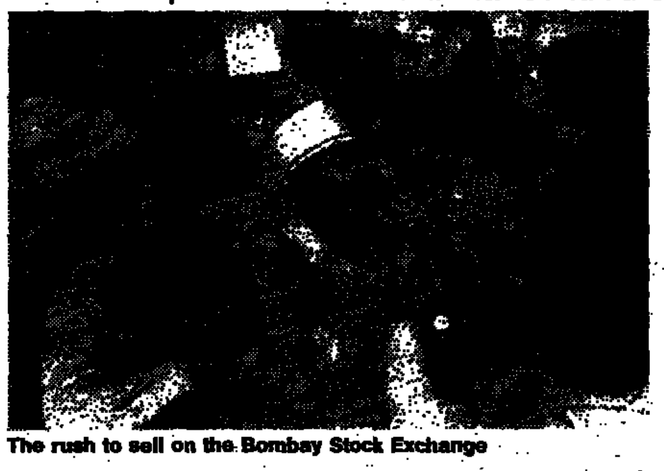
The delays in delivery of stock that result – and the cartloads of paper that banks have to pass between themselves when they buy or sell securities – have prompted banks to issue receipts to each other, promising to hand over securities at a later date. When repurchase agreements are unwound, the receipts can simply be torn up.

The system is ripe for abuse. Banks (or brokers acting in their name) have often created receipts not backed by any securities holdings. Some banks knowingly lent their names to such deals to allow brokers to raise cash.

At the same time, banks' controls over the issuing of receipts have in some cases been appallingly lax: they have been issued (and accepted) in photocopy form, with no serial number, and in some cases bearing only the signature of a junior bank official.

The Reserve Bank knew of problems similar to these, though on a smaller scale, a year ago, and tried to put the lid firmly on the market. It failed. In early 1991, the State Bank of India, the country's largest commercial bank, was dealing in the interbank market at a rate of around Rs10bn (£500m) a month. By this March, that had shot up to Rs87bn. With little external regulation or internal control, bank officials and brokers colluded to suck as much as Rs30.8bn out of this overcharged market, according to the Reserve Bank.

Much of the extra bank credit that was created in the process is thought to have been drawn into the stock market, helping to drive the Bombay Stock Exchange's Sensitive Index (Sensex) up from just over 1,000 early last year to a peak of 4,500 in April before the scandal broke.



The rush to sell on the Bombay Stock Exchange

Share prices lost touch with reality. The average price/earnings ratio of the market peaked at 57 at the end of April.

Most observers of the market claim to be glad that the stock market bubble has burst – but they do not want to see share prices fall further from what is still a heady level. With the Sensex standing at around 3,000, the price/earnings ratio of Indian companies averages just over 30.

By almost any standards, the p/e still looks high. And even then, there is widespread disbelief in many of the numbers being reported by listed companies. Share ramping (against the by-laws of only some of India's exchanges) and insider dealing (still not an offence) are publicly acknowledged to be rife.

The financial scandal that has come to light in recent weeks has given a new impetus to the overhaul of financial regulation that was already being undertaken by the Reserve Bank and the Securities and Exchange Board of India. This is centred on three areas:

● The interbank market. The Reserve Bank has agreed with banks active in the market a series of restrictions aimed at preventing a recurrence of the fraud. These include, for instance, restricting trading to government securities (in the past, banks have actively traded bonds issued by public sector companies and units in the Unit Trust of India as well). Also, banks are being encouraged to separate trading, settlement and custody activities to make it more difficult for frauds to occur.

● *The stock market. The SEBI* is putting pressure on the country's stock exchanges to regulate their markets better. According to Mr G. V. Ramakrishna, SEBI president, investors often receive no contract note for their deals and so often do not know on what day their brokers have dealt or at precisely what price. There are sometimes long delays in delivery of shares or cash.

Harshad Mehta: stockbroker charged with fraud

SEBI is also looking over the exchanges' shoulders as they open up their markets to corporate broking firms for the first time, due within the next month. Arthur Andersen, the accounting firm, has been hired by the Bombay Stock Exchange to advise on capital adequacy rules for brokers, to *replace the unlimited liability* currently imposed on partnerships and sole traders.

The supervision of markets and the regulation of brokers is being left largely to the exchanges – with SEBI breathing down their necks. "They know that if they don't do it, we'll get it done," says Mr Ramakrishna.

● Banking supervision. Discussions are under way about the creation of a new board of banking supervision independent of the Reserve Bank – a recommendation contained in a official report on the financial system at the end of last year by Mr M. Narasimham, a former central bank governor.

At the same time, the Reserve Bank's own relationship with the commercial banking system has come under scrutiny. It directly owns two banks at the centre of the scandal in the securities markets, the State Bank of India and the National Housing Bank. Mr R. Janakiraman, its deputy governor – the man charged with investigating the fraud – is himself a member of the State Bank's board.

Mr Venkitaramanan denies that the Reserve Bank has any responsibility for the way these banks have been run – but he admits the position makes him uncomfortable. "There should be separation of ownership and regulation," he says.

While attention is currently focused on an overhaul of financial regulation, the progressive deregulation of India's capital markets has been continuing apace. Two steps taken in recent weeks indicate the direction and pace in which things are moving.

The first was the abolition last month of the post of Controller of Capital Issues, an official whose job it had been to stipulate the price at which shares could be offered to the public and the interest rates that companies could pay on their debentures.

This had given rise to the lottery in which investors lucky enough to be allotted shares at par in a new issue were assured of a hefty paper profit once secondary trading started. Now, issues are expected to be priced at closer to their likely market price.

The second step has been the move to free up the country's government debt market, with the Reserve Bank for the first time inviting tenders for short-term bills. Interest rates on long-term government debt could also soon be set by the market, says Mr Venkitaramanan – if wholesale price inflation falls from its current level of 12.5 per cent, and the country's fiscal deficit falls towards 5 per cent. These are two very big "ifs", but at least interest rates have been moved steadily upwards in recent months to something more like a true market level.

These and other liberalising moves are now too far advanced for India to turn back to its old ways, reformers claim – adding that the securities scandal should not be allowed to prevent further development. "I don't think we should restrict capital market activity," says Mr Venkitaramanan. "But the regulatory structures have to catch up."

David Housego on market research into consumer spending

Where the big numbers are

OVER THE past 10 years, newspapers and magazines in India *have given enormous publicity* to what has been called the "middle class boom". But Marg, India's largest market *research organisation*, believes that the real boom in consumer spending will spring from the rural areas.

"Here are the really big numbers and the big bucks for companies," says Mr Titoo Ahluwalia, the chairman of Marg. He says that once the problems of distribution and communication have been solved, rising household incomes and product brand awareness will produce a "cluster of booms" in different parts of rural India.

India has a population of 850m and in the past consumer spending was concentrated in the urban areas. But Marg is not alone in finding soaring demand from rural and semi-rural areas. Detergent producers like Hindustan Lever and biscuit manufacturers such as Britannia are experiencing far stronger sales growth outside urban India.

Mr Ahluwalia believes the strong growth in sales will occur in products such as agricultural inputs (implements, fertilisers, pesticides), soft products (soaps, toothpaste and detergents), consumer durables (audios, kitchen gadgets, refrigerators, two wheelers) and pharmaceuticals. Of over-the-counter medicines, he says: "Our studies repeatedly show big numbers in this sector."

Part of the growth stems from villagers abandoning traditional herbal medicines. Rural incomes have grown substantially in the past few years because of four good monsoons, debt relief measures for farmers and increasing government procurement prices. This year – depending on how widespread or bad the drought is – the growth will slow down or could fall. But over the longer period, substantial increases in agricultural productivity together with brand awareness should further boost both incomes and consumer spending.

Marg sees the rapid penetration of television into the rural areas as being the major factor behind greater product awareness. Mr Ahluwalia cites a personal anecdote of a village in Goa of 87 households. Two years ago there were only two TV sets. Now there are 17. "Young kids are asking about brands and products", he says. "That is where the big boom is going to come from."

Market research presents unusual problems in a country of India's size and diversity. A *typical project involves interviewing in four languages and a nationwide survey would* require 18 languages. Marg, *which does public opinion* polling as well as market surveys, blew its own trumpet loudly when it forecast correctly the number of seats that Congress would win in the last general election.

For market research purposes Marg classifies "middle class" in India on different criteria from those used elsewhere. On a conventional western definition of "middle class" as a household with a car, buying a house on a mortgage and taking a holiday by the sea, the Indian middle class is tiny. But on the basis of the segment of the population that purchases branded fast-moving consumer goods, it is very large.

Estimated number of users/buyers of branded products	
Toilet soap	540-580m
Tooth paste/powder	260-290m
Purchases a year	
Cars	200,000
Scooters, motor-cycles	2-3m
Bicycles	7-8m
TV sets	4-5m

Source: Marg

Marg warns that the Indian market has pitfalls of which the foreign investor is not immediately aware. General Foods discovered this in the mid-1980s when it launched Tang as a breakfast drink. It failed in India where milk is traditionally drunk in the early morning and people do not like mixing citrus with it.

Indians equally have shown no interests in deodorants. They bathe once a day, and, says Marg, do not believe that "natural fluids should be suppressed." Mr Ahluwalia believes that British companies are failing to exploit British brand names which are deeply embedded in the past of rural India. "British companies are sitting on some pretty powerful properties which they are being sluggish to exploit." He says that British companies have shown a surprising lack of interest in exploring the Indian market.

Bold moves, including recapitalisation, are necessary, writes **Richard Waters**

Bank reform may be a slow process

THE FIRST, tentative steps have been taken in the long process of reviving India's dilapidated commercial banks. But whether the country's politicians and banking authorities have the nerve to take the bolder moves that will be necessary to complete the job has yet to become clear.

The problems engulfing the commercial banks stem from the way the country's credit system has been used as an instrument of government policy over the past two decades. Around two-thirds of all lending by banks is in effect directed by the state.

Three problems have resulted. The first is that banks have been forced to accept large blocks of low-yielding assets. To finance India's fiscal deficit, 30 per cent of bank deposits must be invested in government debt (known as the statutory liquidity ratio). A further 15 per cent is held in deposits with the central bank.

Some headway has been made in reducing this burden on banks. The statutory reserve ratio fell from 38.5 per cent in April, and the interest rate paid on government debt was eased by three-quarters of a percentage point to 12 per cent.

"The tax on credit has come down substantially," says Mr S. Venkitaramanan, governor of the Reserve Bank of India. But the Bank is still some way off allowing the yield on government debt to find its own level in the market.

Banks have also made substantial subsidised loans to meet the social policy objectives of extending credit into rural areas and to support smaller companies. By government fiat, 40 per cent of their "free" deposits (those not earmarked for government debt or the cash reserve) must go this way.

These subsidies will not disappear. "In all developing countries, there is some element of subsidised lending," says Mr Venkitaramanan. However, the level of subsidy should come down, and it should be made more transparent, he says.

Banks have been forced to charge a huge margin to those who do not benefit from subsidies. Not surprisingly, that has prompted better-quality borrowers to bypass the system altogether

The low return on many of their assets has forced banks to charge a huge margin (currently at around 6 per cent) to the small proportion of their customers who do not benefit from these subsidies. Not surprisingly, that has begun to prompt better-quality borrowers to bypass the banking system altogether: a commercial paper market, currently with around Rs5bn of paper outstanding, has begun to develop.

With a ceiling on bank deposit rates of 13 per cent, depositors have also begun to turn away from the banking system towards mutual funds which offer higher returns. The extent of disintermediation remains minimal, but most bankers expect it to pick up in the future.

The banks' second problem is the large volume of bad or doubtful debts they have been forced to shoulder. Establishing quotas for lending to priority customers has inevitably undermined the credit-assessment process inside banks.

"The input of credit was necessary," says Mr G S Dahotre, chairman of the Bank of India. "But whether it was done on sound principles is another matter."

The effect has been to erode the capital base of the banks – though since they are not required to disclose their non-performing loans, or the level of provisions they have made, it remains impossible to assess their true financial condition. Two years ago, the World Bank suggested that Indian banks should aim, "as a first step", for a ratio of capital to assets of 2 per cent. However, the Reserve Bank claims that the position is not as bad as this suggests – partly because revaluations of some of their assets would bolster reserves.

"We may be at 4 to 4.5 per cent on a fully adjusted basis," says Mr Venkitaramanan.

Whatever the true picture, it is clear that a recapitalisation of the banking system will be needed. In a report published at the end of last year, Mr M. Narasimham, a former central bank governor, suggested the creation of a new fund to take over part of the banks' bad debts, and the provision of subordinated loans by the government. Stronger banks should raise capital from the public, Mr Narasimham said.

The Reserve Bank has talked of setting up a new bank to take over lending to the agricultural sector, and agrees with the need to clear banks of some of their bad loans. "We may need an asset reconstruction fund," says Mr Venkitaramanan, drawing a parallel with the Resolution Trust Corporation in the US, the agency which has taken over the assets of savings and loans institutions.

The main branch in Madras of the State Bank of India — Ashley Ashwood

As yet, though, it has given no clue as to how existing commercial banks could be recapitalised. The possibility of privatisation has provoked a backlash from militant bank unions, prompting the government to rule it out for now.

The third problem for banks is the administrative and political straitjacket in which they have been held. Virtually every aspect of their operations is centrally directed, and managers are given little freedom to manoeuvre. That has created a bureaucratic culture, and a lack of attention to credit quality or service.

It has also left banks saddled with large unprofitable branch networks and hefty cost bases. When it was nationalised in 1956, the State Bank of India (then called the Imperial Bank of India) had 414 branches. It now has 8,500, a reflection of government policy of extending bank branches into rural areas. Very few of these branches are computerised – a product in part of union opposition which has prevented the automation of the banking system. State Bank has at least been able to automate its central general ledger, which is more than can be said for others, including Bank of India.

The problem for banks is how to bring down costs and improve service, while at the same time continuing to work within this straitjacket. The power of the unions, and the political need to maintain extensive branch networks, suggest that any progress will be slow.

'Economic reform has gained such a momentum you cannot turn it back'

Foreign banks ready to seize opportunities

THE LURE of wide lending margins and a fast liberalising economy make the eyes of foreign bankers glint. To hear them talk, India is likely to offer some of the best banking opportunities around in the coming decade, and foreign banks have a good chance of profiting.

Compared with their domestic rivals, foreign banks have a number of advantages. They are not weighed down by the requirement to place a fixed proportion of their deposits in government debt – though they do have to set aside a certain amount (currently 15 per cent of deposits) for lending to priority sectors.

Their relative freedom means that they can devote more of their resources to commercial lending, where margins are around 6 per cent. Nor do foreign banks face some of the other burdens of domestic banks: the lack of computerisation or militant unions, for instance. The need to get specific approval from the authorities every time they want to open a branch is not seen by most as a severe restriction on business.

Confidence in economic reform lies behind the current enthusiasm of most foreign bankers. "It has already gained such a momentum, you cannot turn it back," says Mr Hinrich Frese, chief executive of Deutsche Bank in India. "There is only one way, which is forward, towards further liberalisation."

Like many foreign financiers in the country, he talks enthusiastically about the long-term prospects. "Manufacturers make a mistake to disregard India." Several German companies have begun operations in India, including Hoescht, Bayer and Siemens. So far, Deutsche is the only German bank to have set up operations to follow them.

The failure of Indian banks to provide modern banking services for their customers (most have only a handful of computerised branches in metropolitan centres) has opened up another opportunity for foreign banks. Most bankers say there is a strong demand for better services. "What the customer gets in Pakistan or the Gulf, he expects here," says Mr Frese.

The potential market is vast. There are fewer than 1m credit cards in issue in India. Consumer finance hardly exists.

"The only question is, who gets into the business first," says Mr Vikram Talwar, senior vice president in charge of Bank of America's Indian operations.

BoA, along with Citibank and others, says it is making substantial efforts to gain a foothold in the market. "This is the only country outside the US where we are making a major investment in retail business," says Mr Talwar.

The bank plans to launch itself on the market with the full paraphernalia of modern retail banking – automated teller machines, home banking, credit cards and consumer loans. "Technology is going to be the key," says Mr Talwar.

The general mood of optimism, however, has been badly dented by the securities scandal that has shaken India in recent weeks. The fraud erupted in the market in which banks trade securities between themselves – a market which has been developed by the aggressive trading of a handful of foreign banks in the past decade.

At least two of them – Standard Chartered and ANZ Grindlays – have been badly stung. Both have had to move funds into the country to bolster the liquidity of their operations as a result.

Standard Chartered has launched criminal actions to try to recover Rs9.04bn (£162m) from brokers and others who it claims defrauded it through the market. According to the Reserve Bank of India, Standard paid out Rs3bn without receiving any securities. It is also holding securities with a face value of Rs7.5bn issued by two small banks, neither of which has sufficient assets to pay it.

ANZ Grindlays managed to avoid direct loss in the inter-bank securities market, but has been tripped up by the fraud in a different way. It received cheques totalling Rs4bn from the National Housing Bank and paid the money into the account of Mr Harshad Mehta, the broker at the centre of the scandal.

NHB says it never received any securities for the payments, and that ANZ had no right to put the money into Mr Mehta's account (the cheques had been made out in ANZ's name). Mr Mehta and members of his family have since been charged with fraud, while ANZ has been ordered to repay the Rs4bn to the NHB.

The fall-out from the securities scandal has made a serious dent in the reputations of both ANZ and Standard Chartered in India. It has also made more clear to all foreign banks the risks of operating in the country.

"This is a malfunctioning of the industry – not just of certain participants in the market," says Mr Frese of Deutsche Bank. The German bank's own financial services subsidiary has also been hit by losses in the interbank market, he says. Until the market is put on a safer footing, it will remain a precarious place to do business.

Richard Waters

K. K. Sharma on the prospects of Haryana, the north's only Congress-ruled state

An all-round advantage

THE ONLY Congress-ruled state in the northern Indian Hindi-speaking belt, Haryana has ambitious plans for economic development. Mr Bhajan Lal, its controversial chief minister, won the state a year ago when Mr Devi Lal, the former deputy prime minister, and his party, the Janata Dal, were trounced.

Because of the Congress victory in Haryana, while the party was routed all over northern India, the state's officials expect preferential treatment for its economic development plans. These are no longer confined to agricultural growth, although it is readily conceded that Haryana is primarily an agrarian state where food grain production has made rapid strides.

Haryana contributes to the national food grain stocks far more than larger states because it was one of the states where the green revolution succeeded. But Haryana has ambitions to be an industrial state as well.

Earlier this year, Mr Bhajan Lal released a statement on its industrial policy which laid great emphasis on industrialisation as employment in agriculture had reached saturation point.

Haryana encircles the union territory of Delhi and Mr Lal thinks that this is the state's biggest advantage in its drive towards industrialisation. Indeed, one of the objectives of the statement on industrial policy is to exploit the state's "strategic advantage" of proximity to New Delhi, which officials believe to be the gateway to foreign markets.

For this reason that the state aims to attract export-oriented, high-tech and electronics industries. Indeed, Haryana's industrial belt is like a noose round the capital. Most of the major industries are located in towns on New Delhi's border, such as Faridabad and Gurgaon, or a short distance away.

This has already created problems of overcrowding and pollution, which the state's officials do not accept though, even in a small state like Haryana, there are schemes for "balanced regional development". These give incentives to companies to start industries in districts that have none. The "so-called" backward areas of Haryana provide incentives such as a capital investment subsidy worth 15 per cent of the total, subject to a maximum of Rs1.5m, but so far there have been no takers.

Industries are still drawn to areas lying in Delhi's periphery even though land prices are high and congestion is creating problems such as electricity shortages and transport bottlenecks. What are known as "pioneer" units will get subsidies if they come, varying from Rs5m to Rs1.5m and depending on size. To encourage them to go to "backward" areas, these units will qualify for additional subsidies. These are available for agro-based and food processing industries at the attractive rate of 25 per cent of investment in fixed assets (subject to a maximum of Rs3m). Similar subsidies are available for electronics units.

Officials say they have received many inquiries but it is still too early for investment decisions. Haryana has several industrial estates where small and "tiny" units do a thriving business, although the driving force is the Haryana State Industrial Development Corporation, which plans to start five new estates in addition to small village ones to provide self-employment opportunities for the state's educated youth.

The corporation has already arranged foreign collaboration, including a halogen auto-lamp project with South Korea, a disposal syringe project with technology from Britain and an automobile radiator project with Canadian help. The state's industrial policy, in fact, provides special incentives for investment by non-resident Indians and foreign firms, citing as successful examples Maruti Udyog, the country's largest car maker, and Escorts, a big manufacturer of tractors and motor cycles.

Haryana's success in its plans for industrialisation do not depend entirely on political stability. The state has a tradition of political defection (Mr Bhajan Lal himself suffered through defections when Congress was in power six years ago). New public sector units will be limited by India's economic reforms and hoped-for handouts from the central government may not materialise.

To industrialise, Haryana must attract private investment and proximity to Delhi is at present the only attraction it offers for this. Much will depend on how successfully it deals with providing an adequate infrastructure for industrialisation.

Although the state boasts that every village has electricity, the claim is belied by erratic supply. Power supply cuts sometimes last several days in the peak harvest season. Many factories have learnt not to depend on the state electricity board and have installed expensive generating sets. The government recognises this and has provided subsidies for them.

The state's roads are in an appalling state. Corruption is rampant and funds for road building are siphoned off by politicians, officials and contractors. Unfortunately, corruption is a way of life in Haryana; anything that is connected with officialdom moves only if it involves a bribe.

Prospects in Haryana are not improved by its proximity to Punjab. Violence has already spilled across the state's borders and investors hesitate to start businesses in areas close to Punjab which the government wants to develop. Fortunately, Haryana does not have a serious communal problem.

It does, however, have a caste problem, with a bewildering array of castes and sub-castes that have their interests, rather than the state's, uppermost in their minds. Caste is all-pervasive and makes inroads into politics and officialdom and is responsible for vendettas that are the bane of life in Haryana.

It is intangibles like this, as are concrete factors like power shortages, that Haryana must tackle to be on the road to successful economic development.

A look at Faridabad, a leading industrial township

The belt feels the strain

AUTO PINS India is a medium-sized company in the old part of the new industrial township of Faridabad. It is doing well amid neighbouring giants, such as Escorts and Batas, The company was launched in 1953 shortly after the township, now in the main industrial belt in Haryana, was started to rehabilitate refugees from the partition of Punjab in 1947. Land was cheap and available then. However, it has since all been snapped up by industries anxious to start operations near Delhi, 16km away.

Mr Ravindra Singh, finance director of Auto Pins India, says he does not know how much the company's two-acre was bought for but admits: "It was dirt cheap. Land was available in abundance then."

The township has grown enormously since the early 1960s. It now has a population of more than 700,000, with 9,000 small and large factories spread over its 4,050 acres. The factories employ over 120,000 people but many more find jobs in related occupations as the township has grown in all directions.

Like Auto Pins India, which makes leaf springs for truck manufacturers such as Ashok Leyland and Telco, most are doing well despite problems they face in common. Shortage of space to expand is just one of them – the main highway from New Delhi is built up on both sides by large and small factories, all anxious to find a slot near Delhi. Many more are in Faridabad itself which is now a cluster of tall, billowing chimneys. That is why Auto Pins India is unable to expand.

Although its two-acre site is sufficient for its present operations – including making anti-roll bars in collaboration with Krupp Bruninghaus of Germany – its management feels that it will have to go elsewhere if the company expands.

The company employs 400 workers and with a turnover of Rs115m, it is doing well. There are many others like Auto Pins India and all of them bemoan the shortage of electricity. Faridabad's two thermal generating plants lie almost across the road to Auto Pins India and they lack the capacity to provide power to all of Faridabad's factories.

"We had to install a captive generating set than runs on diesel. It is expensive to run but it has to be switched on whenever we have power cuts," says Mr Singh.

Power cuts are common and nearly all companies in Faridabad have captive generators to allow uninterrupted operations. The local authorities have plans to improve generation but the existing plants are now old and need replacement themselves, so power shortages will remain indefinitely. All complain that Faridabad is losing production, or production costs are high, because of the lack of cheap electricity.

There will be no early easing of the shortage although Faridabad is slated to have a gas-based station (at present in the planning stage). Labour problems also sometimes affect work in Auto Pins India, often because outside unions interfere; it has no problems with its own workers' union. Wage demands are the main reason even though Auto Pins India pays an average of Rs1,500 a month, which is good by Indian standards. But outside unions of transport operators are a major headache.

The Faridabad-Ballabgarh industrial belt is one of the country's biggest, with a combined turnover of Rs48bn. Large and medium companies producing goods ranging from needles to giant earth movers and smaller companies acting as ancillaries. It provides Haryana with its main industrial centre (the other being the Ambala region).

The other major problem is housing. Faridabad was never meant to be its present size. A satellite town for Delhi, to which a large part of its population commutes by bus and train every day, its growth has been haphazard and its present congestion has deprived it of its planned township look. Inevitably, pollution is a problem. Residential sectors across the main highway are now a coveted area while land prices have risen in the past few years owing to lack of space.

Despite the Haryana government's industrial policy for Faridabad, the township's residents feel neglected and say that the authorities have failed adequately to cater for its need for amenities. In any case, Faridabad has grown almost as much as it can and further industrialisation will have to be in areas surrounding it.

K. K. Sharma

Businessmen still say West Bengal is not a safe investment bet

State gets thumbs-down

WITH INDIA pursuing more liberal economic policies, the Marxist government in West Bengal can no longer hold New Delhi responsible for the lack of industrial investment in the state.

Nor can it look, as it did in the past, to federal investment to revive its industrial economy. The central government does not have the funds.

According to Mr Jyoti Basu, chief minister of West Bengal, "earlier, West Bengal was discriminated against. Businessmen were denied licences if the investment proposed was for West Bengal. But the condition has now changed with the dispensing of the licensing system. We now have to compete with other states to get private investment."

Whatever Mr Basu's view, his colleagues in the government have yet to make a break with the past. In the Economic Review for 1991-92, the state government says: "Unless the centre invests in new industrial units, the state would be deprived of a major industrial growth impetus."

The Bengal Chamber of Commerce and Industry, which has prepared a package of measures for marketing West Bengal among prospective investors within and outside the country, argues that new private investment began to taper off in the mid-1960s as the state placed increasing faith in government investment. The real value of productive capital in the state has been declining by 0.5 per cent a year since 1968-69.

The major part of new investment has been claimed to rehabilitate old factory units. The consensus among businessmen is that West Bengal is still not a safe bet for investors.

Mr Basu would admit that the infrastructure needs to be improved. Per capita availability of power in West Bengal is much less than the country's average and industries are subject to unscheduled power cuts.

It is understandable that power-intensive industries feel no incentive to relocate in West Bengal. Instead, the Calcutta-based Mittals went to Maharashtra and Orissa, where power supply is assured, to put up three steel plants.

Other facilities in West Bengal, such as urban infrastructure, telecommunication and transportation, also compare unfavourably with the more advanced states. Unless these drawbacks are removed quickly, the state does not stand much chance of getting fresh investment.

Against this background Mr Basu has reason to fear that under the new economic dispensation, the regional imbalance will grow and new investment will tend to flow to the more developed areas.

The drawbacks of poor urban infrastructure and communications ensure that the state does not stand much chance of fresh investment. Instead, new capital could flow to more developed areas

However, it is more than efficient infrastructure that investors will demand. This year, the state has seen two major strikes – a 72-day stoppage in the jute mill industry and a strike of twice that length at the Bata shoe factory. Such long stoppages and acts of trade union "hooliganism" put the state in bad light.

Mr Basu is now trying to solve the problem by treating trade union abuses as any other law and order problem. He has also instructed the labour department "to intervene quickly when a strike takes place." While the state will have to do a lot of promotional work and convincing before new investment starts flowing in, the industrialists will not be keen to take over the ailing units, either.

According to Mr Gouri Goenka, chairman of the Duncans group, which will be commissioning a Rs1.4bn acrylic fibre unit at Haldia in September, "it should not be difficult to run a modern plant in West Bengal, but I will not be interested in taking over a unit for the purpose of turning it around. There is no way one can rationalise labour here."

For West Bengal which abounds in "sick" industrial units – as many as 124 have been referred to the Board for Industrial and Financial Reconstruction – it is important that the government facilitates their takeover and if there are no takers for them, then their closing down, according to the Bengal Chamber. But West Bengal is still not ready for the shift of labour from sick units to new undertakings and from mature sectors to the emerging ones.

Left Front constituents still swear by the public sector, but Mr Basu, who is more a pragmatist than a Marxist, knows that he needs the private sector badly for the state's industrial revival.

In spite of the reservations of his party colleagues, he allowed Mr Rama Goenka, chairman of RPG Enterprises, to take over Calcutta Electric Supply Corporation, which will now be implementing two power projects of a total capacity of 1,250MW at Budge Budge and Balagarh.

The state government, which is facing serious resource constraints, has also decided to ask the private sector to implement the 900MW Sagardighi project. The state must have an additional 210MW capacity a year to cope with the rising demand for power.

The resource constraint is also forcing the government to invite the private sector to manage some of its undertakings. For example, the C. K. Birla group is to modernise the coke oven plant of Durgapur Projects and the Gauripur power station, both state units. The Birlas will be using the coke and power at their proposed steel plant in the state.

It is only now that the state is giving attention to industry, so preoccupied has it been with the restructuring of the rural economy all these years. Is the Rs32bn Haldia Petrochemicals project, the most ambitious for the state, finally about to take off? According to Mr Tarun Dutt, chairman, "since foreign exchange is no longer a problem, we hope to be able to complete the project in four years."

The Ambanis, of the Reliance group, had assured the chief minister that they would set up a polyester filament yarn unit at an investment of Rs4bn. However, not many other such projects are in the pipeline. Whether or not investors from outside will come to West Bengal will depend on Mr Basu's ability to make his ministers and bureaucrats responsive to the needs of industry.

Kunal Bose

The former Harrison's and Crosfield warehouse at Fort Cochin in Kerala

UNIT TRUST OF INDIA

Monolith faces pressure

IMAGINE AN investment institution which raised almost enough new cash last year for it to have bought up all the new equity issued on the stock market. Its vast appetite is fed by a national network of 75,000 agents. Many of its customers believe its investment returns carry a government guarantee.

The Unit Trust of India's place at the heart of the country's investment community is unchallenged – for now. But this gargantuan group is about to come under pressure as India's potentially vast mutual fund market is opened up to the private sector.

UTI has had a purple year, even by its own standards. At the end of June 1991, it had 10m account holders. Now, it has 20m. It collected a net Rs10bn (£2bn), taking its funds under management (at book value) to Rs31bn.

UTI both benefited from the dizzy rise in Indian share prices last year, and fed it. As prices rose, more investors gave their money to UTI to invest – and as UTI received more cash, it bought more shares, driving prices higher. More than half of the new money raised by UTI last year was aimed at growth (or equity) funds – some Rs5.5bn, compared with the Rs6bn or so of new equity raised on the stock market as a whole.

"We are hungry for equity," says Mr S. A. Dave, UTI's genial chairman. Such buying pressure has helped to keep Indian share prices at price/earnings multiples which seem unsustainable by the standards of many markets, even after the sharp decline in the past two months.

Even before this spurt, the institutions involved in India's investment markets looked monolithic. Alongside the LIC and GIC, UTI (which accounts for around 80 per cent of all mutual fund investments) has a firm grip on the country's capital markets.

There is concern in some quarters about implicit political control over UTI's operations. The group is owned by state-owned financial institutions. Could it be susceptible to political interference?

It controls around 10 per cent of India's quoted companies – a significant proportion, given Mr Dave's estimate that only around a quarter of most companies' shares are freely traded in the market, rather than being tied up in family or other long-term hands. It is also one of the handful of institutions that buys corporate debentures and underwrites equity issues.

Money flows into UTI through a vast network of tributaries that spreads across India. Besides its 75,000 agents, the group also piggy-backs on other national distribution networks, such as those of fertiliser companies. Units in UTI schemes are available at many petrol pumps, or mobile collection points in some urban areas.

The returns paid on its fixed income schemes account for much of UTI's attraction. It paid a dividend of around 16 per cent last year, some 3 percentage points more than was available on bank deposits. Unlike banks, UTI is not weighed down by the directed credit policies which have forced banks to take on large volumes of low-yielding or non-performing loans.

It now plans to launch a money market fund, investing in corporate certificates of deposit and other short-term debt instruments.

The question for supporters of deregulation is how to break UTI's stranglehold on the mutual fund industry. Set up in 1964, UTI was unchallenged until 1986, when some other state-owned financial groups were allowed into the market. Now, private sector mutual funds are on the horizon (the Securities and Investments Board of India has yet to publish regulations governing how such funds are run).

UTI's powerful distribution network and track-record of paying steadily rising dividends will make it tough to beat. Mr Dave says of his agents: "They are freelancers, so they are not prohibited from doing business with others." However, whether in practice rival mutual funds can feed off the UTI's network remains to be seen.

As India's capital markets develop, other aspects of UTI's dominance could also give the reformers pause for thought. How, for instance, can the state be sure of getting the top price when selling stakes in public sector companies if UTI is the only bidder of any size?

In February, stakes of up to 20 per cent in 30 state-owned companies were sold off, the first disposal of its kind. UTI bid successfully for two-thirds of the shares on offer – only to run into a political storm later over claims that the shares were sold off too cheaply. Shares in the Steel Authority of India, the first of these companies to be listed on the stock market, began trading at around Rs200 each in May. According to one merchant banker involved in bidding for shares in February, they had been sold by the government for less than Rs20.

"It's all hindsight," says Mr Dave. "Many of the packages of shares offered by the government were not even taken up. The market grew very fast after the sale." Nevertheless, it seems likely that politicians will experiment with other ways of selling shares in public companies next time.

UTI's power also gives rise to concern in some quarters because of the implicit political control over its operations. The group is owned by a variety of state-owned financial institutions, and its chairman is a political appointee. Could that mean its power as a leading shareholder in many of India's biggest private companies is susceptible to political interference?

"We are an investors' organisation. Government has no control over us," says Mr Dave. He points to the row that erupted earlier this year between rival factions in the senior management of Tisco, the steel company owned by the powerful Tata family. Both factions canvassed support among politicians, but neither won the backing of the politicians, he says.

However, a political establishment that has grown used to controlling and directing the financial system through state-owned banks is likely to find it difficult to allow UTI complete freedom. That is particularly true as the capital markets develop as an increasingly important source of cash for Indian companies.

Richard Waters

David Housego sees signs of a more buoyant export-driven industry

A turn in the tide for textiles

AFTER LAGGING behind the rest of Asia over the last few decades, India's fabric and garments exporters are beginning to wake up to the opportunities that a cheaper currency and the change in economic policies are opening up to them.

"There is going to be a massive boom," says Mr Hrishikesh Mafatlal, head of the textiles division of the Bombay-based Mafatlal group. The group is the country's largest producer of dyed and printed fabrics and is a supplier to Marks and Spencer in the UK.

Mr Mafatlal expects exports, which accounted for 35 per cent of $1.2bn sales last year, to contribute 50 per cent of turnover in the near future as the group doubles its rate of investment to an annual $16m a year.

At Bombay Dyeing, another of the Bombay groups that survived the massive contraction of sales by the large textile mills that characterised the 1970s and the 1980s, Mr Dinkar Alva, the managing director, also sees a turn in the tide. "There are expansion opportunities," he says, with the group likewise basing its investment on upgrading quality and boosting exports.

Arvind Mills, an Ahmedebad group and probably the most aggressive of the larger mills, has built a substantial expansion programme on the export of high quality blue denim and on cotton shirting. After Rs500m of exports last year, the group is aiming for Rs5.1bn by 1994-95, by which time it hopes to be among the top ten denim producers in the world.

Other signs of a more buoyant export-driven industry are a surge of new investments – particularly in the south which grows fine, long staple cotton – in spinning. As a result of this, the textile machinery industry is quoting delivery dates of two to four years to provide new spinning machines.

Yet this new confidence in the industry has not translated itself into the trade statistics. Notwithstanding a 24 per cent devaluation of the rupee in July last year and a continuing slide in the currency since then, India's textile exports grew by only 4.4 per cent last year to $5.7bn. Garment exports actually fell in dollar terms by 1.8 per cent.

This slow rate of growth was most obviously due to recession in the US (accounting for 24 per cent of Indian textile exports) and in the EC (43 per cent) and to the ceilings placed on Indian textile exports under the multifibre quota arrangements. Another major reason was that exports to the former Soviet Union slumped in the wake of the collapse of that market.

But it also reflected the failure of Indian manufacturers to benefit from the devaluation themselves. "Our exporters passed on the value of the devaluation to the buyers rather than retaining it themselves," says a senior official in the Ministry of Textiles.

While exports of garments fell, there were nonetheless sharp increases in exports of handloom products (up 21 per cent in dollar terms) and of cotton yarn (up 38 per cent).

India remains, however, a marginal player in the world textile trade. Its share of world fabric exports actually dropped between 1980 and 1990 from 2 to 1.1 per cent. In garments India achieved a modest increase over the decade and now accounts for 2 per cent of world trade – a proportion well below China's 8.5 per cent.

But if India is a small player on the world stage, textiles are India's single largest export and account for 30 per cent of export earnings. The industry believes that further increases must come through exploiting India's competitive advantages, and by improvements in quality and moving more upmarket.

With China and Pakistan, India is one of the few countries in the world to have a substantial surplus of raw cotton. Yields are high in the Punjab but still well below international levels in the south and central India.

Compared with 10 years ago, there is greater emphasis on design and quality. Mr Mafatlal says that in his own group "there has been a sea change in management culture". He cites a major reason for the greater emphasis on quality as being improved labour relations. "The single biggest change is in how we treat our staff and in the way we get them to participate," he says.

Hand-loom weaving at a Bangalore silk factory

Ashley Ashwood

The government is also more supportive to textile exporters than in the 1970s when its main preoccupation was to curb the growth of large mills and boost employment in the handloom and powerloom sectors. Textile machinery is easier to import. So are the buttons, zips and extras that the garments industry needs.

Nonetheless, Indian garment manufacturers face bureaucratic hurdles and other difficulties that put them at a disadvantage with their competitors in neighbouring Pakistan, Bangladesh or Sri Lanka. Ms Mani Mann, a garments exporter, does not see much hope of improvement: "I am cynical about liberalisation because there is so much political interference. I don't know if we will really go forward," she says. But her own order book has doubled this year which shows that some purchasers are turning to India more than they were.

Profile: IF&LS

Pioneer for the private sector

PRIVATISATION has not made much headway in India. The government's only major initiative has been to sell an average 8 per cent stake in 30 public sector companies. The government has said as well that it is prepared to sell up to 49 per cent of the shares of public sector enterprises – thus giving the private sector a minority stake but not ceding management control.

An institution that is, however, playing a pioneering role in familiarising India with the concept of the private sector financing traditionally public sector projects – roads, bridges, mass transit – is Infrastructure Leasing and Financial Services Limited (IF&LS).

A Bombay-based institution set up to attract private capital to projects that central or state governments do not have the funds to finance themselves, it has enough schemes under its belt to demonstrate that this is a field with immense potential.

It has arranged the financing and construction of a link road in Indore in Madhya Pradesh between two industrial areas that will pay for itself from toll charges. It is bringing Nippon Koei, a Japanese engineering design company, to do a detailed feasibility study for a bridge and traffic system in Bombay that will equally be self-financing from toll charges. And it is negotiating for the financing and construction of an urban rail link between Hyderabad and its satellite town of Secunderabad in the south.

Mr Ravi Parthasarathy, managing director, believes that a sea change has occurred over the last two years in India's acceptance of the concepts of privatisation and of private financing for infrastructure projects. Equally unthinkable two years ago would have been the contracting of a Japanese company to do engineering design for Bombay. But Mr Parthasarathy says that India does not have experience of designing the traffic system needed to accompany the proposed bridge from Worli to Sea Rock. The bridge will much shorten the journey from the airport to the city centre.

Established in 1988, IF&LS is an independent institution whose main shareholders are nationalised banks. But the International Finance Corporation (IFC), an affiliate of the World Bank, holds 15 per cent of the shares.

It gets most of its earnings from its investment banking, leasing and securities trading business.

IF&LS took what Mr Parthasarathy calls a "buffetting" when its former chairman, Mr M. J. Pherwani, resigned as chairman in the wake of the financial scandal. He had also been chairman of the National Housing Bank which is heavily involved with Mr Harshad Mehta, the Bombay broker, in securities trading.

IF&LS suffered no losses and was given a "clean sheet" by the Reserve Bank of India (the central bank). But with the upheaval among heads of financial institutions, it has still to find a chairman. The board has, however, given the go-ahead for a substantial expansion by approving a Rs1bn capital increase intended to give IF&LS the strength needed to raise funds from the multilateral institutions.

Much of IF&LS's pioneering work has been to get the central and state governments to pass legislation making possible the private financing of public sector projects. The proposed light transport link for Hyderabad cannot be built without an amendment to the India Railways Act which gives the state a monopoly over railway construction. IFLS hopes that the Hyderabad project will be the forerunner of other privately financed mass transit projects in major cities.

The most high-profile project in which it is involved is the construction of a fourth bridge in Delhi across the Yamuna. The project envisages an eight-lane bridge with an integrated system of flyovers and interchanges to link the industrial estate of Noida with Maharani Bagh in New Delhi. International contractors will be asked to bid. The operators will be allowed flexibility in setting the toll charges themselves.

David Housego

In spite of a recent decline in sales, **Michael Smith** finds grounds for optimism

Car industry has yet to prove potential

WHEN the Indian government eased controls on who could set up manufacturing bases in industry last year, it left the cars sector out of the liberalisation. Few were surprised.

Although the Indian car industry is more than 40 years old, the government is still undecided whether it should be viewed as an important sector with potential for providing large-scale employment and export growth, or merely as a source for luxury products for the rich.

To date, the view of Indian governments has been the latter. Cars have been seen as guzzlers of the foreign exchange needed to make and fuel them. As a result, the sector has been even more heavily regulated than others and taxes have been higher.

Production licences have been refused to countless potential manufacturers and today there are only four companies making cars. Their combined domestic sales have never risen above the 175,000 achieved in 1989-90 and only one company exports cars to any considerable extent. The carmakers together employ fewer than 30,000 people.

Those companies that have tried and failed to get in on the act can at least console themselves that market conditions in the past two years would hardly have provided the perfect launch pad for entry.

After a quadrupling of domestic sales between 1983 and 1990, the total fell to about 142,000 last year and there are fears that it will be below 100,000 this year.

A variety of factors accounts for the decline. The devaluation of the rupee has made component imports more expensive, and petrol price rises and the increased cost of consumer credit has lessened the attractions, and possibilities, of owning a car.

More damaging still was the government's decision last year to raise excise duties on the price of cars to 60 per cent, compared to a previous 40 per cent and 6 per cent in the mid-1960s. "Cars have become truly *unaffordable*," says Premier Automobiles, the second largest car manufacturer.

In spite of the gloom, there are grounds for optimism in the long term. The growing potential for foreign collaboration, and with it increased exports, improvements in the quality of indigenous components and better productivity will all aid the industry.

The catalyst for much of the change has been Maruti Udyog, a joint venture between Suzuki of Japan and the Indian government. Prior to its emergence in its present form in 1983, consumers had to choose between Premier and Hindustan Motors, both producing 1950s models with outmoded equipment.

Amid claims from its rivals that it was given favourable treatment in tax treatment and production quotas, Maruti has slowly built up its claimed share of the market to more than 60 per cent.

Exports last year reached 22,900. Although that is not expected to increase significantly this year, the target for 1995 is 50,000 to 60,000. One reason for the expected rapid growth is that the Suzuki's new Alto 800cc model will be made exclusively in India. The company has this year raised its stake in the joint venture from 40 to 50 per cent.

Mr R. C. Bhargava, chairman of Maruti, says he cannot claim that the quality of the product is identical to that made in Japan, but he says it is not significantly lower. Labour costs 1.7 per cent of the total input of a car, whereas the equivalent figure for Japan is 12 per cent. "Potentially we can get the price cheaper, providing we can get our act together in the components industry."

Maruti's growth has already stimulated a rapid improvement in the quality of components made in India. Partly as a result of collaboration with overseas, mainly Japanese companies, component makers are increasingly turning out products which can compete in international markets.

The Automotive Components Manufacturers Association of India says its members increased exports last year from $100m to $140m and expect exports growth of 30 per cent annually.

For India's components makers to become much larger players on the international market, they will need more expensive equipment which economies of scale would provide. That will only come with significantly increased domestic market share.

Like Maruti and component manufacturers, Premier and Hindustan are looking to joint ventures for growth. Both companies are in need of revival.

Premier is expected barely to make a profit in the current year. Mr Vinod Doshi, chairman, is resentful about the accusation, common in Indian business circles, that it has failed to satisfy the needs of the market.

Although the most recent of its two car models was first manufactured in the mid-1980s, Mr Doshi points out that Premier has been trying unsuccessfully ever since to persuade the government to allow it to manufacture another.

Previously, it collaborated with foreign companies but did not enter joint ventures. Now that is changing. "We are looking for a long-term marriage, not just a technical licence." Talks are under way with companies including Fiat, Peugeot and Nissan and Mr Doshi expects to have formed a relationship with one of them within three or four months.

Meanwhile he and his son have shown that they mean business in revitalising the company by persuading 3,000 of the 9,500-strong workforce to take voluntary retirement. The package and the way it was negotiated has sparked considerable admiration in Bombay, where, as in the rest of Indian business, it is notoriously difficult to shed labour.

The new entrant to car manufacturing is Tata, the large industrial and engineering group. Frustrated by the government's refusal to allow it to establish a carmaking collaboration with Honda in the late 1980s, the Tata subsidiary, Telco, recently started manufacture of what it claims is the first Indian car to be made without foreign collaboration.

In spite of government restrictions on entering car manufacturing, under "broad banding" policies a company which already makes four-wheel vehicles is able to diversify into cars. Tata developed a pick-up van; the Tata estate car and three-door Sierra are modifications of that.

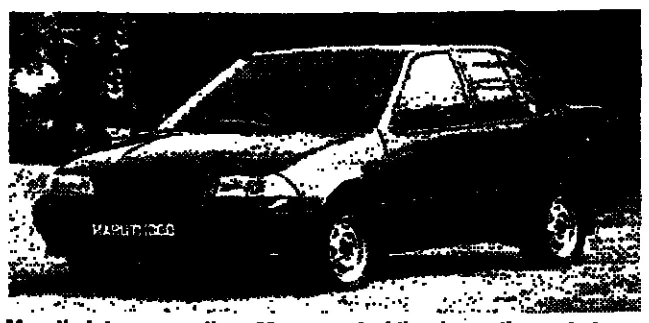
Tata plans to produce 10,000 of the cars this year and has orders for all of them already. Mr V. M. Raval, director of Telco, says interest has been shown from the UK, France and Egypt.

The present car is built on a chassis and so is higher than a standard estate car. That could encounter resistance from potential export targets. Before it begins exports, Tata intends to change that, as well as develop a petrol version of what is now an exclusively diesel car and improve the finish.

Mr Raval say exports are some way off. But he believes that it will be competitive because it will be lower-priced than rival products made in other countries.

As with much of Indian car manufacturing, the promise has yet to be fulfilled.

Tata is a new entrant to car manufacturing



Maruti claims more than 60 per cent of the domestic market

The two- and three-wheeler market seems to be benefiting from an early upturn

A brighter trend on the roads

IF A demonstration was needed of the power of a well-chosen joint venture, it was provided last year by the Indian two-wheeler sector and Honda, writes Michael Smith.

As Indian motor-cycle sales fell 9 per cent to 430,000, Hero Honda, a joint venture in which Honda has a 26 per cent stake, increased volumes by 13 per cent to become market leader.

In scooter manufacturing, Kinetic Honda, another Honda joint venture, added 10,000 to its sales to reach 87,000, again in a shrinking market.

The Indian two- and three-wheeler market, which last year totalled 1.68m units, is dominated by six players. Bajaj Auto, Hero, Kinetic, TVS (which has a joint venture with Suzuki), LML and Escorts.

Together, they account for more than 90 per cent of sales.

Fortunately, the collective gloom which resulted from the severely depressed market of last September-January, when the market slipped by more than a quarter on the comparable period of the previous year, appears to be lifting.

Monthly sales since January, are closer to last year's levels and in some cases above them. That means that the two- and three-wheeler sector was affected later than cars and has benefited from an earlier upturn.

In India, long-term growth is assured because two-wheelers are commonly used to carry three and four people and are viewed as the poor person's car.

The problem for companies like Bajaj Auto, the market leader for all two- and three-wheelers, and Escorts, the motor-cycle market leader before last year, is the competitive threat posed by Honda and, to a lesser extent, Suzuki.

Bajaj has done well to carve out a 47 per cent share of the market for two- and three-wheelers. Although that is well down from the 80 per cent it had prior to the liberalisation of the industry in the early 1980s, it is a significant improvement on the 40 per cent of eight years ago.

Under the chairmanship of Mr Rahul Bajaj, the company is considered to be one of the better-run indigenous Indian organisations with, for example, a relatively enlightened approach to research and development.

R&D is the only department in the company which does not have budget constraints. But the task is tough. "Honda of Japan spends more on R&D than our annual turnover," says Mr Bajaj. "Where does that leave us?"

The answer is striving hard both to increase market share further and boost exports from their current 2 per cent of production to a targeted 15 per cent.

Mr Mehta does not disguise his regrets about the lack of a joint venture

Indian market share increases can come from initiatives such as the introduction in 1990-91 of a 50cc moped which in its second year of production took 10 per cent of the market.

Bajaj still claims to be cheaper than most of its rivals in most of its products.

Achieving the exports target will be more difficult in the absence of dealer networks available to companies with joint ventures and doubts among potential foreign buyers about the quality of Indian manufacturing.

For similar reasons, Escorts will struggle to increase exports which last year accounted for about 1,000 of its 120,000 motor-cycle production.

Although Escorts has collaborations with overseas companies including Yamaha, it has no joint ventures with Japanese companies. Product development has suffered as a result and it is still developing a fuel-efficient, four-stroke model to match the one behind Hero Honda's success.

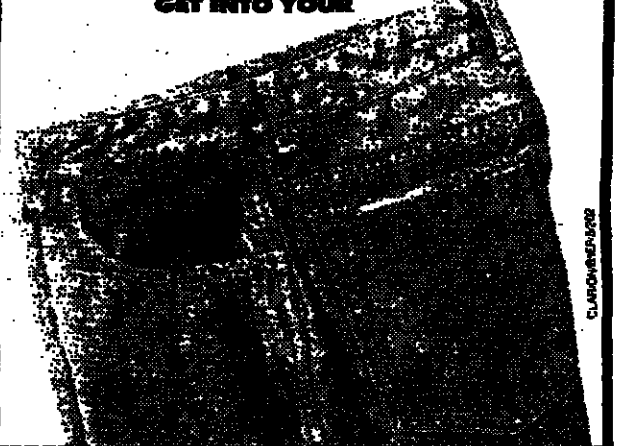
Mr M. M. Mehta, Escorts vice-president, says that when it comes, in two to three years' time, it will be better than those of its competitors. He also draws comfort from a revival in demand for Rajdoot motor-cycles which were behind the company's earlier success.

"We cannot meet the demand for Rajdoots. In the mid-1980s it suffered from the Japanese competition. But we have been making constant improvements and the price has become more favourable against the Japanese because of rises in import duties."

However, Mr Mehta does not disguise his regrets about the lack of a joint venture. "If an Indian company has a joint venture, the (foreign) partner is concerned with the technology and the well-being. For example, if the yen-rupee relationship slips, the collaborator will give some consideration on the price of imports."

Not surprisingly, Escorts is considering the possibilities of a joint venture.

In the Pune factory of Bajaj Auto, the market leader for two- and three-wheelers



Half the population cannot read, but the government is resisting pressure to introduce compulsory primary education

Neglect of schools could hold back growth

AS INDIA pursues east and south-east Asia down the trail of higher economic growth, it could run into a major road block – it has one of the highest rates of illiteracy of any country in the world and one of the worst records for neglecting primary education.

While east and south-east Asia made universal schooling the focus of their drive for higher economic growth, India has lagged badly behind in developing primary schools.

Almost half the population aged seven and over cannot read or write. Less than 50 per cent of children between the ages of 6-14 are in school – leaving a staggering 82m who are put out to work by their parents in so-called cottage industries, in the fields, or as bonded labour. Two-thirds of those who attend primary school drop out before the final year.

The World Bank and donor nations are now putting pressure on India to face up to the seriousness of the situation and to make universal primary education a priority. Mr Oktay Yenel, head of the World Bank office in Delhi, says: "There is no country (other than the oil-rich countries of the Gulf) which has achieved high levels of per capita incomes and reduced poverty with a predominantly illiterate population."

The Bank sees low levels of literacy – worst among the poor and among women – as putting a brake on other programmes to alleviate poverty, including health education and family planning.

Both aid agencies and diplomats in Delhi were dismayed that the February budget seemed to have dropped the emphasis on basic education that had formed a key element of the budget presented by Dr Manmohan Singh, the finance minister, last July.

The multilateral institutions are convinced that raising funds both domestically and abroad for a mass primary education programme would be no problem. "If India had a major primary education expansion programme, I know that the World Bank would come in in a big way and I guess that many other countries would find it worthwhile," says Mr Yenel.

The aid agencies believe that there are now well-established and politically neutral technologies for accelerating primary school expansion. They do not believe the arguments of senior officials in Delhi who oppose compulsory education on the grounds that the rural poor prefer to send their children to work rather than to school.

"If there is good quality primary education, I am convinced that the great majority of parents would want to send their children to school," says Ms E. Watanabe, head of the United Nations Children Fund (Unicef) in Delhi.

But in North India in particular, primary schools are bad. On average there is one teacher for every 58 pupils. Appointed from outside through influence of friends or family, he often has no contact with the village and turns up irregularly at the school.

"I asked parents whether they knew the teacher," Ms Watanabe says of villages she visited in Bihar where Unicef has a project. "None of them knew him," she says. Books, blackboards, and mats for pupils to sit on are all in short supply.

India wrote the goal of achieving universal primary education into its constitution after independence. But it has remained a dream as the number of illiterates grew each year by 5m to 437m.

One of the paradoxes of the country is why its educated elite, committed to the goals of development, socialism and democracy, should have allowed primary education so low a priority. India spends less than 1 per cent of GDP on primary education – or well below that of most countries in Asia and in sharp contrast to the large resources it devotes to secondary and higher education.

The blunt response of Professor Myron Weiner, an American academic who has recently published a book on child labour in India, is that the fault lies with the caste system.

Prof Weinder sees the neglect of primary education as based on the fear by the higher castes that "excessive" and "inappropriate" education for the poor "would disrupt existing social arrangements".

He explains: "Rhetoric notwithstanding, India's policy makers have not regarded mass education as essential to India's modernisation. They have instead put resources into elite government schools, state-aided private schools and higher education."

Though universal primary education and the abolition of child labour have been official policy since independence, the government under Rajiv Gandhi shifted the focus about seven years ago.

The emphasis was put instead on improving the conditions of child labour while providing non-formal education for those who had dropped out of the school system and crash literacy courses for adults. This shift in policy was justified as reflecting the "socio-economic realities" of the country.

Mr Anil Bordia, the education secretary, who has presided over the change in policies, says that the best results have been achieved in the south where 25-30 districts (including the state of Kerala) have been declared literate. Two-thirds of the country will be literate by 1997-98, he claims.

He rejects Prof Weiner's analysis of India's educational problems. "He does not understand India. I think he does not know what he is talking about," says Mr Bordia.

The education secretary himself does not believe compulsory primary education is the right approach to universal schooling in India. He recalls how "painful" it was for him as a young judge in Rajasthan – where education in one district was compulsory – to fine parents who begged not to send their children to school.

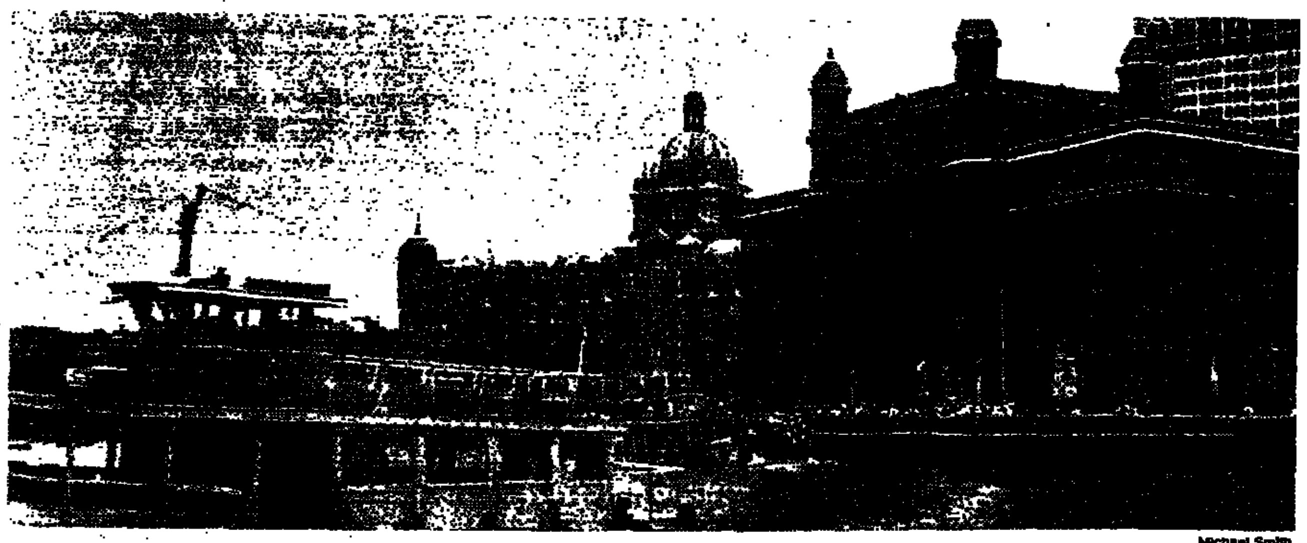
Mr Bordia is also suspicious of foreign interference in primary education and is opposed to the World Bank sending specialist personnel to support a large proposed primary education project in Uttar Pradesh, the northern state with one of the highest rates of illiteracy.

He says that he has seen in Pakistan and Bangladesh "the harm which big investments in primary education can do to a country whose culture and milieu are not particularly different from our own. Neither in planning (primary education and literacy) nor implementation, do we need help from abroad," he adds.

The multilateral institutions believe that literacy campaigns and non-formal education (where children attend classes after a day's work) are no substitute for mass primary education. They fear as well that the these programmes will divert resources from the more urgent task of primary education. "My concern", says Ms Watanabe, "is that the focus on literacy is diverting attention from primary education."

The multilateral agencies need to maintain their campaign since primary education lacks a lobby within India. "Primary education is one of the subjects that does not have a strong national lobby," says Ms Watanabe. Mr A. B. Vajpayee, the BJP leader and a veteran parliamentarian, says he has never had a question from a constituent over primary schooling.

David Housego

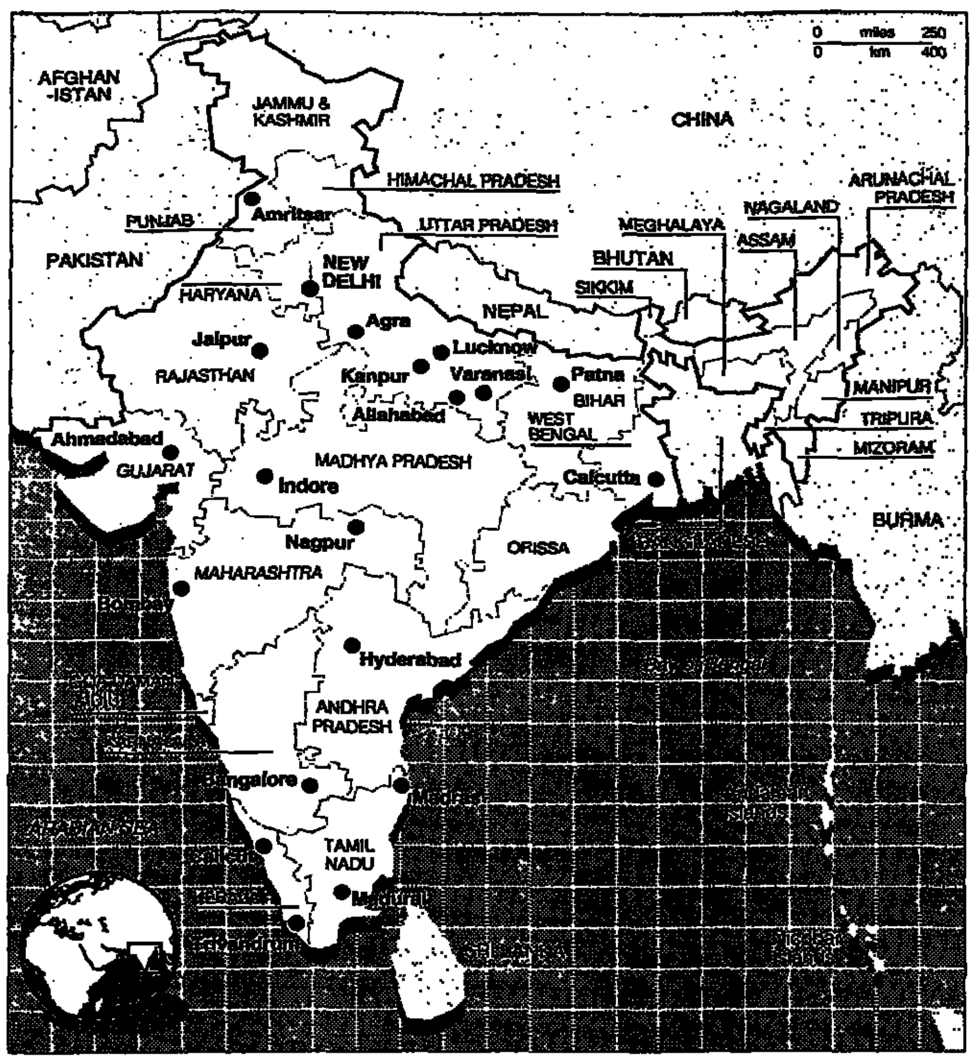


The Gate of India, Bombay, with the Taj Mahal Hotel in the background

Michael Smith

Daniel Green

A family of monkeys in the temple area above Mysore in Karnataka State



One of the world's cheapest countries for western visitors is trying to do more to attract them

Tourism targets seem not too fanciful

THE SHARP fall in the value of the rupee in recent years has helped to make India one of the cheapest countries in the world for the western tourist. The government has ambitious plans to take advantage; the tourism industry, though encouraged by the level of ministerial enthusiasm, is sceptical about the chances that these will be achieved.

India has set lofty targets for tourism in the past – and failed to reach them. Its share of world tourism traffic has remained at 0.4 per cent over the past five years and its foreign exchange earnings from tourism have remained at $1.3-1.5bn.

Last month Mr Madhavrao Scindia, civil aviation and tourism minister, announced that he wanted India's share of world tourism to rise to 1 per cent within five years. By the end of the century he wants both foreign exchange earnings and employment in the sector – currently 14m – to double.

The country's lacklustre performance last year, previously designated as a year for tourism, is explained in part at least by events outside the industry's control.

The Gulf War upset the best-laid plans of all the countries in the region and the violence surrounding the Indian general election campaign made the sub-continent less attractive still. "The tourism ministry does not have an in-house astrologer," says Mr Scindia. "If we had one he would have cancelled the year for tourism before it began."

Mr Scindia, an effective railways minster between 1985 and 1990, is viewed as a breath of fresh air by tour operators and hoteliers, even though his reputation has been tarnished recently because of controversies over civil aviation.

His plans for tourism include improving the quality of the infrastructure, particularly transport, increasing foreign investment and easing the vast array of government controls and bureaucracy which hold back the industry and providing financial encouragement for hotel building.

Compared with the performance of its neighbours, India's targets do not seem so fanciful. Even if it were to raise the annual number of its tourist arrivals from 1.7m to 3m or 4m, it would still not equal the 4m-plus already achieved by Singapore and Malaysia.

The main advantage that those two countries have over India is their geographical position. According to Mr A.K. Gupta, joint secretary at the ministry of tourism, at least 80 per cent of those who visit countries belonging to the Association of South East Asian Nations come from within Asean.

India's problem is that it is relatively isolated from the main sources of tourism. "The foreign tourist has to make up his mind," says Mr Gopta. "India is not a country for an impromptu visit."

Nonetheless, India's infrastructural problems do not make it easy for spur-of-the-moment visitors. Internal flights within India are often booked some days in advance and, while anyone with corporate contacts can usually arrange a late booking, that is of little use to the leisure tourist.

To help ease the congestion, the government has inaugurated an open skies policy whereby independent operators can set up airlines between the main cities. Three companies are already flying between them about 15 737s but the foreign exchange expense of setting up in the business has led to problems for other potential entrants.

Meanwhile, progress has been made in making Indian Airlines flights more punctual and the tourism ministry says 86 per cent on trunk (metropolitan) routes are on time. More customer-friendly policies, such as warning passengers of impending delays, are being introduced.

To bring more people into the country, the government has eased rules on charter flights. Whereas an airline would previously have to wait six months for clearance to bring in a chartered flight, arrangements can now be made within 24 hours, says the tourism ministry. It expects the number of charters to increase to at least 400 in 1992-93, against a previous norm of 125.

To achieve its targets, India will also need to spend far more to increase the number of its hotel rooms. There are now some 44,000 in the approved sector, perhaps half of what is needed.

Upmarket hotel chains are already planning significant expansion. The Welcomgroup has a Rs1.6bn development plan for the next three years which is expected to increase by 50 per cent its capacity from the present 2,300 rooms.

Last month's government tourism plan increased from 3 to 5 per cent the interest subsidy available to some two- and three-star hotels, while discontinuing subsidies for four- and five-star rated hotels.

Investment in hotels and other facilities will also be encouraged in special tourism areas where tax concessions will be made available.

This reflects a government desire to move away from the previous even-handed approach to the various regions.

Fifteen specified circuits and destinations are being identified for concentrated marketing and development. That should take some of the pressure off the Golden Triangle of New Delhi, Agra and Jaipur which, in peak tourism months at least, is close to full capacity.

The government's decision to sell 60 per cent of its equity in 24 hotels managed by the Indian Tourism Development Corporation could also increase the supply of quality accommodation. Foreign companies are being invited to take stakes of up to 40 per cent in the hotels which will be marketed in batches of four.

It remains to be seen how interested foreign companies will be in joining ventures in which the government will still hold 40 per cent of the equity. A further deterrent is that the hotels, which comprise one of the largest chains in the country, have staff-resident ratios twice as high as private sector hotels.

Foreign investment in private sector tourist enterprises has also been made possible through recent liberalisation. The high price of land in cities will remain a brake on development, particularly on two- to three-star hotels which are needed more urgently than pricier units.

All of these developments have encouraged the tourism industry that real change is in the offing, but grievances remain.

The Indian Association of Tour Operators says the government's introduction of a 20 per cent tax on foreign currency payments at hotels where nightly rates exceed Rs1,200 will weaken the enthusiasm of foreign tour operators to organise trips to India.

The association also wants the government to allow more luxury cars to be imported, which it says are needed for the industry.

Few in the industry are confident that the government can achieve all of its targets, but growth in tourist arrivals and foreign exchange receipts of between 10 and 15 per cent a year is considered eminently plausible.

Michael Smith

Divided they may be, but they are not a soft target, reports **Michael Smith**

The key to the unions' strength

THE DIVISIONS among Indian trade unions suggest that they should be a soft target for governments wanting to force through labour law changes. The appearance is deceptive.

In a country where governments are loath to abandon the consensus tradition, union opposition has delayed the formulation of policies that would make it easier for employers to shed labour.

There are about 70,000 unions in India. And instead of one or two co-ordinating forums for all unions, common in many countries, there are at least nine – the number recognised by the Ministry of Labour – and all have different political agendas.

Indeed, one reason for the profusion of trade union centres is that many see themselves as the industrial arms of political parties. The ties are all the stronger, because many members of parliament remain union leaders after their election.

The key to the unions' strength is the areas where they are organised. Among 316m workers, only about 25m, or 8 per cent, belong to unions, according to labour ministry figures.

But while their representation is almost non-existent in many areas of the unorganised labour sector, their penetration in the organised sector is high.

The organised sector is only 31.6m strong, against the unorganised sector's 285m, but it includes the public sector and the vast majority of India's large employers.

Industrial action, or the threat of it, can have a powerful effect there. Unions which staged a one-day strike against the economic reforms last November claim that it was only afterwards that the government became eager to talk to them about their views on the changes.

The strength of union opposition to the reforms varies. The communist-backed All India Trade Union Congress is totally opposed. Mr T.N. Siddhanta, secretary, says the previous, restricted economy "has served us well. I do not say everything was done correctly, but we have been able to stand on our own two feet. "Liberalisation is more and more expressing itself against the interests of the workers."

The Indian National Trade Union Congress (Intuc), which is allied to the Congress-I party and claims to be the largest grouping, takes a softer line, and did not participate in the strike last November.

However, it opposes foreign companies' taking a stake of up to 51 per cent in Indian enterprises. "They will press out Indian companies that are doing all right," says Mr S. N. Rao, its spokesman.

And Intuc is certainly against a policy of allowing the closure of sick industrial units or labour rationalisation. Mr Rao does not deny overstaffing, especially in the public sector, but he argues that that is not the fault of the workers.

But perhaps the most effective argument at the unions' disposal is that India has no social security or unemployment benefit, and employment availability is not growing.

"The government has stopped recruitment for several years," says Mr Siddhanta. "With employment generation nil, no-one will get a job elsewhere."

Overstaffing in the public sector

No exit, so far

EVERY DAY, about 25 workers turn up at a factory in Delhi where, according to management, they are paid to do nothing.

The factory's plant was long ago removed by its owner, the electronics company Weston. But repeated requests to the workers that they transfer to another factory or leave with compensation have been turned down.

Mr Sunder T. Vachani, managing director, says the 25 are each paid Rs3,000 (£56) a month, an average wage in Delhi for a production worker, but he adds they spend much of their time asleep. He has not approached the government for permission to make them redundant: he predicts that it would be refused.

Weston and thousands of other Indian employers have a surplus of labour, because they are bound by a plethora of rules and regulations which make the redeployment and retrenchment of workers extremely difficult, if not impossible.

The government has signalled a willingness to act, but is encountering enormous problems in formulating a policy, both to make it easier for private companies to exit and on 58 so-called sick industry units which it wants to move out of public ownership.

With the help of a $500m loan from the World Bank, it plans to set up a National Renewal Fund to provide resources for dealing with displaced workers. But that is of limited use in a country that has no social security net to catch anyone made redundant but has huge labour surpluses.

Overstaffing is most severe in the public sector. The World Bank has identified it as one of the most serious obstacles to Indian industry's competitiveness. It estimates that there is a surplus of 250,000 to 300,000 workers in the public sector; many believe that to be an understatement.

Partly as a result, the Indian public sector includes numerous sick units whose liabilities exceed their assets. The 58 units being tackled by the government now have accumulated losses of Rs100bn and a total workforce of 470,000.

Private sector employers want an exit policy for the public sector, so that losses can be tackled, inflation rates cut and taxes reduced. But many want a government policy to make it easier for themselves to tackle inefficient workers and loss-making units.

In theory, provision already exists, through the Industrial Disputes Act, for closing down unprofitable units. However, job security and compensation arrangements are subject to more than 100 regulations, and the act confers discretionary powers of decision on states and government.

However, the laws of many states forbid closure, and states which have a more liberal regime are reluctant to assent to closures and redundancies.

Companies which close unilaterally, without permission, face losing plant and equipment without compensation. State governments will often take over the operations and run them at a loss, rather than see workers lose their jobs.

Many industrialists believe the success of the economic liberalisation will be jeopardised unless the government formulates an exit policy. "Entrepreneurs and foreign companies will be reluctant to get into manufacturing if they feel there is no way out if they get into difficulties," says one. He is having difficulties finalising a joint venture with a Japanese company, because of the lack of an exit policy in India.

More gainfully employed: workers at another plant of Weston, an electronics company

Among organisations seeking a tougher approach is the Federation of Indian Chambers of Commerce. Mr V. C. Dutt, its chairman, has called on the government for employers to be able to cut back at least 1 per cent of their workforce without going through the "proper labour and legal procedures."

But the government, in treading warily on formulating a policy, can claim that the clamour for reform from industry is by no means universal.

Mr Tarun Das, director general of the Confederation of Indian Industry, is sceptical about the need for radical change in labour laws. "Employers are already shedding labour and their organisations are becoming leaner," he says. "Much more needs to be done; there is overmanning across the board. But companies can already do it, provided they have the consent of the unions."

Job-shedding can be achieved even without the consent of unions. Earlier this year, union leaders at Premier Automobiles advised members to turn down an early retirement package, but about 3,000 of the 9,500 workers rejected their advice. In such circumstances, the state did not intervene; nor did it want to.

Nonetheless, Mr Vinod L. Doshi, chairman, believes an exit policy is needed. "We do not envisage it, but if for any reason demand does not pick up and we are in dire trouble, we will have no means of further reducing the workforce. Companies in other countries do not face the same constraints."

With the views of industrialists appearing sometimes to conflict with each other – and the political pressures surrounding the formulation of the policy so great – it is hardly surprising that there have been some confusing and often contradictory messages from senior ministers.

As long ago as last December, Mr Manmohan Singh, finance minster, promised an announcement within a month. Six months later industry is still waiting. Other ministers and Congress-I spokesmen occasionally say that an exit policy is not under consideration.

That, however, is more to do with their regret that the phrase "exit policy" was ever used, because of the emotions it arouses. Means to retrain and redeploy labour are certainly under consideration, even if some ministers insist that the plans do not include "retrenchment".

In recent statements Mr P.V. Narasimha Rao, prime minister, has attempted to allay workers' fears that the government's industrial policy would not affect their interests. Implementation of the new policies would not render them jobless, he says. "Whatever we are doing, we are doing for the welfare of the workers."

Such statements do not convince the trade union leaders, and it is difficult to see how a radical improvement in India's industrial performance can be achieved without significant change to labour laws. That, in turn, is hardly likely to work to the advantage of workers.

Michael Smith

Profile: P. S. SANGMA

Easing the shackles

HE WILL not make the final decisions. But as acting labour minister, Mr P. S. Sangma will be highly influential in the government's formulation of controversial policies to deal with sick units and their workers in the public sector, and to ease the shackles imposed on industry to deal with surplus employees, writes Michael Smith.

The deliberations are among the most difficult the government faces. In India, jobs have traditionally been viewed as the preserve of the holder for his or her working life.

The political sensitivities that surround the issues have already contributed to the departure, several months ago, of Mr P. Ramamurthi, Mr Sangma's predecessor at the labour ministry.

Mr P. V. Narasimha Rao, prime minister, thought to be considering a significant reshuffle of his cabinet, took on the job himself for a short period, but then decided to appoint an acting replacement. Mr Sangma was familiar with the brief, having been labour minister in 1986-87.

Still only 44, he has wide experience in government, although below cabinet level. A lawyer by profession, he was elected to parliament in 1977 at the age of 29. When Congress I was next returned to power, in 1980, he became a deputy minister and served in that post in industry and foreign affairs before becoming minister of state (home).

Like many other government ministers, Mr Sangma returned to his home state when Congress I lost power. In his case he was chief minister in Maghalaya for three years before Congress I was returned to power last year. He was then appointed coal minister, a non-cabinet job which he retains alongside his labour brief.

Mr Sangma visibly enjoys the cut and thrust of parliamentary debate, and can often be seen smiling when confronted with challenging questions. But his approach to his ministerial jobs is by no means adversarial.

Although he jokes about the lack of unity among trade unions – "there are nine trade union centres, and that makes it easier for us: we can make them fight each other" – he says he is trying to impress upon union leaders the need to work together.

"It would give them more bargaining power," he explains. "For any honest employer, it is better to have one union than several to deal with. If the unions are united, it is better for the working classes."

Mr Sangma says he is in favour of the unions, though on one condition: that the leadership should come from the workers themselves, and not from political parties. The government is proposing legislation which would limit outsiders on union executives (including MPs) to 10 per cent of the leadership.

Although this may meet union opposition, the bigger fights will be over the public-sector sick units and any amendments to labour laws.

Mr Sangma, who chairs the tripartite committee to consider the impact of the new industrial policy on labour issues, has tried to allay the fears of unions, by telling them that the government intends to "safeguard the interest of workers".

The government would like to rationalise labour through voluntary retirement, retraining and redeployment, he says.

Mr Sangma points to agreements such as that recently negotiated by him in the state-owned coal mines. Under this, workers have, for the first time, agreed that any new mines shall take only 30 per cent of their employees from new recruits to the industry. The rest will come from other mines where they are viewed as surplus labour.

The problem with the 58 sick units earmarked for modernisation is that their financial position is already tenuous, and some would be considered unviable in other countries.

Mr Sangma says he hopes most of the units can be revived. "In a few cases, where there is no chance of revival, we are willing to hand them over to workers' co-operatives, and we will write off all the past losses and liabilities and give them finance."

And if that does not work? "We will see later on," replies Mr Sangma. He laughs his infectious laugh, but in a way that suggests he realises that that will be the crucial test of government policy.

Coal scuttle thrown open

Kunal Bose says that New Delhi has no alternative but to invite private sector participation in new projects. At the same time, the industry has a four-prong plan to achieve "self-reliant growth"

Ashley Ashwood

The coke quenching plant at Durgapur steel plant in West Bengal

NOBODY is as yet talking about the privatisation of the Indian coal industry, which was nationalised two decades ago. But under the new economic order the coal industry, like any other public sector undertaking, cannot depend on the government for financing new projects. So New Delhi will have no alternative but to invite private sector participation in a number of coalmining areas.

According to Mr S.K. Chowdhury, chairman of Coal India Limited (CIL), those which may be thrown open to the private sector include washeries (where the ash content in coal is reduced), power plants to supply electricity to the mines, workshops for maintenance of equipment and shaft sinking and other mine development activities.

The coal sector's allocation for the eighth five-year plan launched in April 1992 is Rs115bn. But government budgetary support will be limited to Rs28bn. Doubt persists on whether CIL will be able to find the funds for the projects identified in the plan. Its production target for 1996-97, the plan's final year, is 258m tonnes.

Because of the strain on its resources, the government has no alternative but to invite private sector participation in as many areas as possible. A more important move under consideration is for the government to permit bulk consumers of coal such as power, steel and cement to have captive mines.

Industries for which coal is *the principal raw material* would heave sighs of relief if they were allowed coalmining rights. There is a running battle between CIL and the major coal consumers over the quality and quantity of coal supplied. For example, there was a supply shortfall of over 6m tonnes of coal to the power sector in 1991-92.

Mr Purno Sangma, minister for coal, admits that "complaints regarding the size and quality of coal continue to be an area of major concern". The complaints mostly relate to the high ash content of the fuel and the presence of such materials as stone and mud.

The minister believes that joint inspection by the producer and the consumer at the loading point will largely eliminate the complaints. But to improve the *quality of coal will* call for the setting up of washeries close to the mines as a private initiative since CIL does not have the money to do the job.

A study by experts found that a 7 per cent reduction in ash content would lead to an improvement of up to 28 per cent in the calorific value of coal and a 7 per cent saving in transport costs.

CIL, which needs substantial *foreign exchange to finance* imports of equipment and spares, has decided to give a major thrust to the export of coal and coke. Its newly created export unit hopes that exports will reach 2m tonnes in a couple of years. In addition, Mr Chowdhury explains, it hopes for an extra Rs350 a tonne.

The single largest corporate employer in the world which no longer expects the government to take care of its losses, *according to its chairman*, CIL achieved an improvement in the year to March 1992. The company earned a net profit of Rs1bn against a loss of Rs2.53bn in 1990-91.

How badly the coal business was run in the post-nationalisation period is evident from CIL's accumulated losses of Rs22bn.

The perennial bane of CIL has been low productivity in the underground mines and equipment problems in the opencast mines. According to Mr Sangma, in the five years to 1991-92, the wage cost per manshift rose by 58 per cent, while the output per manshift in the underground mines, where nearly 85 per cent of CIL's total manpower is deployed, remained stagnant at 0.53 tonnes.

With wage costs equal to 85 per cent of the selling price of coal produced in the underground mines, the loss on production of 80.31m tonnes in 1991-92 is estimated at Rs10bn. However, the loss has been made good by the profits earned from production of 147.51m tonnes in the opencast mines.

Output in the opencast mines, however, leaves considerable room for improvement. If the equipment which now remains idle for nearly 55 per cent of working hours is put to more efficient use, that would help. The poor equipment utilisation is in spite of "fairly high investment in workshops".

The challenge for CIL today is to generate enough resources to ensure "self-reliant growth". According to Mr Chowdhury, the aim is to achieve this in four ways.

■ First, the underground mining operation which has suffered because of inadequate supervision, delays in project implementation and neglect of dip development is to be thoroughly overhauled.

■ Second, in its obsession to step up coal production, CIL has in the past sacrificed the quality aspect. In the past decade, the share of superior grades in total coal production has declined from 35 to 14 per cent. The aim is to raise this to 20 per cent within three years.

■ Third, CIL has planned to liquidate coal stocks by 20m tonnes to a more manageable 27m tonnes during the current year. But CIL cannot achieve the target if the railways do not press into service sufficient numbers of wagons. There is also scope to reduce the inventory of stores by Rs1bn.

■ The fourth task is to step up the export of superior grades of coal to realise extra value.

While the government has yet to show the political courage needed to close any of the uneconomic mines, it is trying to cope with the estimated 50,000 surplus workers by redeploying them in new coal projects and offering them an attractive voluntary retirement scheme.

However, in this CIL will need the support of state governments, some of which are run by non-Congress parties.

How business houses are achieving an international presence

Small fish in a big pond

THEY are just minnows in a global pond. Yet they are not insignificant. They do not possess the financial muscle of American and Japanese multinationals, but they are chiselling out an international presence.

Forty-five years after independence, Indian business houses are dipping their toes into unfamiliar waters. Leading the charge is RPG Enterprises, India's sixth biggest business house. The Bombay-based group is building a Rs120m car tyre plant in Sri Lanka. It is scheduled to go into commercial production by the end of the year.

"Once full production is reached, we expect annual sales to be Rs300m," says Mr Harsh Goenka, the youthful chairman of RPG Enterprises.

Government-run companies are not far behind the private sector. The Baroda-based Indian Petrochemicals Corporation Ltd (IPCL) wants to set up a $200m, 100,000 tonnes a year acrylonitrile plant in Yambu, on the western coast of Saudi Arabia. According to Mr Hasmukh Shah, IPCL chairman, the engineering phase "will commence after August".

Other important projects include a Rs35bn oil refinery at Jebel Ali in Dubai by the Bombay-based Ambani group and a Rs7.4bn rayon grade pulp plant in Indonesia by the Delhi-based Thapar group. Meanwhile, a handful of Indian business houses already runs significant international operations.

Singapore-based Mr Rajan Pillai, head of a Rs12bn bread and biscuit empire, controls New Zealand's biggest biscuit company. Mr P. K. Mittal, head of the Rs13bn Calcutta-based Ispat group, runs the largest steel mill complex in Indonesia's private sector. In Malaysia, Bombay-based Mr Aditya Birla operates one of the world's largest palm oil refining plants. From Essex, Mr Vijay Mallya supervises 17 manufacturing units, spanning 18 countries, which generate revenue of Rs18.65bn.

This surge of international activity among Indian business houses coincides with an awakening realisation among foreign companies of India's attractiveness as a large consumer market and as a potential manufacturing base.

There are several reasons why Indian businessmen have chosen to come out of their shells at this point of time.

First of all, Indian technology appears to be coming of age. RPG's Enterprises's Sri Lanka project is a case in point. Within India, all the six major tyre companies have been established with help from global leaders such as Dunlop, Pirelli and Intercontinental. The RPG project, however, is based solely on technology provided by Ceat, a RPG Enterprises-run company in which the Goenka family holds a 40 per cent equity interest and Italy's Ceat owns 10 per cent.

For some businessmen, the motivation seems to be a need for international recognition. In India they may be powerful players, but they want to be more than just big fish in a small pond. As Mr Mallya puts it: "We want to be a large international group based in India, operating a broad spectrum of businesses in association with the world leaders."

Mr Shah of IPCL echoes this sentiment. "While the new economic policies place a premium on export-led growth, IPCL believes that the mission is much larger in dimension. We should aim at international forays to emerge as a force to reckon with in the petrochemical industry worldwide."

Before that happens, the government will have to ease the cumbersome controls on Indian investments abroad. Aware of the bottlenecks, the government is now actively considering granting automatic clearances for Indian companies planning to invest in overseas joint ventures or wholly-owned subsidiaries.

Procedures for granting approvals to the appointments of Indians on the boards of overseas companies in which investments may also be relaxed shortly. Combined with the imminent free convertibility of the rupee, these should further stimulate Indian groups to go global.

Despite the enthusiasm of Indian businessmen, so far the dip into international waters has been rather timid. Most lean on local partners for expertise and funds. IPCL's acrylonitrile plant is being set up in collaboration with the Alujain Corporation, part of the Saudi Arabian Xenel group. Mr Pillai's Britannia Brands is a joint venture with BSN, the French food conglomerate. The Thapars are setting up their pulp plant with P. T. Risjadson Holding and Investment of Indonesia.

Financially, also, most of the new ventures tend to start off small. RPG's Sri Lankan foray, for example, is extremely modest. At Rs120m, it is a mere drop in the ocean compared to the Rs30bn which the Goenkas propose to invest on projects in India. Of this, Rs4.5bn is earmarked for expanding their Indian tyre interests.

Mr Birla's international adventures started equally bashfully. "By the late 1960s, I started feeling that south-east Asia would be a good place to be in. I began with a very small textile unit. I think the initial outlay was not even Rs10m," he recalls. This 12,000-spindle textile plant in Thailand became the take-off point for a multi-location, multi-product group of 11 companies whose combined sales are currently $730m. Within India, Mr Birla's group sales are Rs54bn.

Despite their export growth, until recently Indian business houses were unable to break out of their Asian boundaries. That is rapidly changing, with India's diamond merchants setting the pace. Their manufacturing outlets are in Surat and Bombay, but they buy diamonds from London and Antwerp and export them to New York and Hong Kong.

Industry experts say that three Indian diamond firms (Rosy Blue, Jayem and Vijaydiamond) tower over the rest. Not only are their sales higher (roughly $200m each), but they differ from hundreds of run-of-the-mill diamond merchants because they operate cutting and polishing plants in several countries besides India.

Mr Dilip Mehta of Rosy Blue has factories in Belgium, Sri Lanka, Thailand and Israel besides India. Mr Vijay Shah (Vijaydiamond) has plants in the Philippines and Thailand besides offices in Bombay, Israel, Antwerp, Hong Kong and New York. Though both maintain manufacturing ties with Surat, Mr Madhu Mehta of Jayem now largely operates out of Antwerp and Thailand.

Does all this point to the birth of India Inc? It is too early to say. Nonetheless, today's willingness of Indian business houses to look out of India and into the world's windows reveals growing confidence and maturity.

Gita Piramal

FOREIGN INVESTMENT

More, but still not enough

MR K. K. Modi, the chairman of Godfrey Philips, a leading cigarette manufacturer, is a busy man right now. Last week he spent many hours with the top brass of Stephanel. This British company is seriously considering both marketing its range of women's wear and sourcing some of its production in India.

Next week, Mr Modi will be closeted with Disney executives, looking at the prospect of dubbing the latter's vast repertoire of children's movies into various Indian languages.

"Since the liberalisation programme started, the number of inquiries from foreign companies has been phenomenal," says Mr Modi. "It is a far cry from the time we wore out shoe leather trying to attract companies to come to India."

The recent international interest in India is certainly not superficial. Very soon, Indians could be crunching bowls of Kellogg's Cornflakes, washed down by cans of Coke. These global brands are just two of the 950 foreign collaborations approved by the Indian Government in the past 12 months.

In contrast, there were just 666 approvals in 1990. According to the Indian Investment Centre, 289 projects involving foreign equity worth Rs5.34bn were approved in 1991. Figures from the Department of Industrial Development suggest that 78 per cent of this amount was approved between August and December 1991, or shortly after the first budget of the present government.

In January 1992, foreign collaborations involving Rs1.76bn were approved — which is more than the whole of 1990, when there were just 194 projects involved a mere Rs1.25bn worth of foreign equity. February 1992 was even more remarkable. In just that one month, the figure shot up to Rs14.91bn. Foreign investment seems to be finally coming to India in a big way.

Currently, General Electric of the US is possibly the largest foreign investor. It has tied up with half a dozen Indian companies for products as diverse as refrigerators and washing machines (with Godrej), thermoplastics (with Indian Petrochemical Corporation), and industrial lighting (with Wipro). It has also evinced keen interest in India's ambitious energy programme and is likely to set up a electric power station once the government has finalised its power policy.

Du Pont also has major investment plans. These include a $100m venture to manufacture polyester base film for photographic, X-ray and graphic arts applications, to be located at Kurkumbh, near Pune in Maharashtra.

Meanwhile, there is a whole host of smaller projects involving high-profile multinationals such as Shell in petrochemicals, IBM in computers, and Alcatel in telecommunications.

But just how much of this fresh investment is due to the welcome mat spread out by Mr Manmohan Singh, the finance minister, and the much-touted "new economic policy" announced on July 24 last year? Reading between the lines, the answer is: not very much.

Companies like GE, Du Pont and Coca-Cola, which head the list of major investors, have long been interested in India. Most of their recently announced projects have been in the pipeline for the past two to four years. Even more significantly, almost all were tailor-made to suit India's five-year plans.

The Du Pont polyester base film project is a classic example. "The Indian government was clear that foreign investment had to be high-tech, world-class and export-oriented. We centred our project around those objectives," says Mr Bob Wray, business director of Du Pont electronics. "Liberalisation only speeded up decisions."

Even more significantly, despite the obvious and dramatic percentage increase in foreign investment, the actual total remains piffling in international terms. The question is: why has India failed to attract more?

India's multi-layered bureaucracy is frequently cited as a key factor. Aware of international frustration, one of the first acts of the Narasimha Rao administration was to appoint a high-powered four-member foreign investment board headed by Mr A. N. Verma, a senior civil servant, to slice away at red tape. But it was unable to achieve much.

Right through a sweltering Indian summer, Shell's managing director, for example, cooled his heels in a Delhi hotel, waiting for final clearances for a Rs30bn naphtha cracker which Shell wants to set up with the Mafatlal Group outside Bombay. He waited in vain.

> Swapping horror stories is almost a favourite pastime for foreign businessmen dealing with India. In trying to understand the logic for these delays, what most India watchers forget, or neglect to take into account, is the strong nexus between business and politics in the country

Swapping such horror stories is almost a favourite pastime for foreign businessmen dealing with India. In trying to understand the logic for these delays, what most India watchers forget, or neglect to take into account, is the strong nexus between business and politics in India. If a new venture encroaches on an existing concern, its management will anxiously look for ways to protect its turf. Often politicians and bureaucrats are all too ready to help out by stalling a rival's project.

It took Pepsi-Cola over three years to set up a food processing and soft drink plant outside Delhi. The undertaking almost became unviable in the process. Though its profit-and-loss account is nothing to write home about, the Pepsi venture at least managed to get going despite the multi-pronged and unabashed blitz unleashed by Parle, a local soft drinks manufacturer.

A Du Pont-Thapar Group nylon 66 project in Goa has not been as fortunate. The polyester cartel succeeded in delaying the Rs1.96bn enterprise to the point where cost escalations rendered it financially unviable.

Another source of misgiving among potential foreign investors is India's draconian labour laws. It is almost impossible to fire workers or close down loss-making units.

These are not the only trouble spots. According to Mr Alan Furness, British Deputy High Commissioner in Bombay, "there is a degree of scepticism about how far government policies have really changed and what this means in practice. There are also fears about power allocations and whether other infrastructural needs will be fully met."

Nonetheless, despite warped labour policies, a stubborn bureaucracy and roadblocks all along the way, India holds several advantages over neighbouring countries for foreign investors.

Du Pont, for example, preferred to locate its polyester base film plant in India rather than China, Japan or the Pacific Rim countries. According to Mr Wray, "we want to globalise but there is too much competition in Japan and markets such as Korea, Taiwan and Singapore are too small. India offered more incentives than China. The clinching factor was the presence of a major local consumer for our product."

So India could be one way to beat the global recession; company results for 1991-1992 have been largely ebullient. Inflation and the prospect of a poor monsoon may cut into next year's profits but with a 150m-strong middle class, India's consumer boom, which started in the late 1980s, may only marginally decelerate.

In this panorama, do the pluses outweigh the minuses in the minds of foreign investors? Recent figures certainly suggest that they do. But will India seize its rare opportunity or let it slip away?

Gita Piramal

Michael Smith on the electronics sector

Growth has faded

THIS YEAR marks the 10th anniversary of one of the most significant events in Indian television and electronics manufacturing.

It was in 1982 that the administration of Mrs Indira Gandhi abandoned its traditional hostility to televisions, until then thought an unnecessary luxury, and encouraged their use for people to watch the Asian Games. TV manufacturing was given further impetus in the run-up to the general election two years later.

The change of policy led to television becoming one of the biggest growth industries of the mid-1980s, with annual expansion of more than 30 per cent the norm. This in turn fuelled strong growth throughout the electronics sector.

Few manufacturers are in a mood to celebrate the anniversary. Of the more than 100 companies that entered the market, many have since quit or are in trouble. Three manufacturers – Videocon, Onida and BPL – now dominate the field with a combined market share of more than two-thirds.

They and the other remaining manufacturers are competing in a market that has shrunk from 1.3m colour sets and 4.4m black and white in 1988 to 800,000 colour sets and 3.2m monochrome sets in 1991.

The electronics components sector, whose fortunes are closely linked to consumer electronics and especially the television industry, is feeling the pressure. Although its production continues to rise, capacity utilisation is low and the returns on its substantial investment are poor.

Indigenisation of inputs into the electronics sector has improved significantly in the last 10 years. Whereas manufacture of colour televisions started with 90 per cent of components imported, that is down to 10 per cent.

However, the components industry's long-term plans for further advancement are suffering because current volumes are insufficient to justify large-scale investment in facilities to produce components including integrated circuits.

That, in turn, will keep up the cost of televisions – Indian prices are among the highest in the world, although televisions are beginning to compete in the export market – and prevent further growth in the market. Tariffs on imported raw materials and components remain high.

Television manufacturers are united in what to blame for their woes. Sales taxes, excise duties and other government imposts have risen to a level where they are 50 per cent of the total price of a colour television set. "Due to this, an industry which is supposed to be a sunrise industry has become a sunset industry in the last four years," says the Consumer Electronics and TV Manufacturers' Association.

The industry believes that in spite of high poverty levels in India, the market is – high taxes aside – capable of enormous growth. "There is a view that those who can afford to buy televisions have already done so," says Mr N. Vittal, secretary at the government's department of electronics. "I do not agree. If China with a comparable population can produce 7m colour sets a year, why should we be satisfied with 800,000?" Industry sources say that household penetration is less than 5 per cent.

With the market depressed, manufacturers are concentrating on increasing exports and on diversifying into consumer electronics and related products such as audio equipment, video recorders and household products including washing machines and vacuum cleaners.

Internal forecasts by one consumer electronics group predict that Indian sales of video-cassette recorders and players can almost double from Rs5.5bn in 1990-1 to Rs10bn in 1994-5 and those of audio equipment will rise by a similar proportion to Rs13.71bn.

Among groups poised to take advantage is Peico Electronics and Electricals, in which Philips has a 40 per cent stake. Peico has had a chequered history in its 60 years. Its fortunes reached a low ebb in the 1980s when labour troubles, a loss of direction and a government-enforced late entry into television manufacturing led to it missing out on the TV boom.

However it claims 30 per cent of Indian audio sales and is mounting a more determined attack on the television market. It held No 1 position in the black and white 14-inch market last year, against No 8 position previously.

Further advances will be helped by the recent government liberalisation which will enable Philips to take a 51 per cent stake in the company which will also market goods under the Philips brand name.

The leading indigenous companies are also benefiting from the liberalisation which allows them to market products under the brand name of the foreign, mainly Japanese companies, with which they have collaborations. Onida has tie-ups with JVC, Videocon with Toshiba and BPL with Sanyo.

Television manufacturers are united in what to blame for their woes. Sales taxes, excise duties and other government imposts are 50 per cent of the total price of a colour television set

Closer ties would inevitably boost quality and, with it, export potential. According to Cetma, last year's exports of 200,000 colour TV sets is likely to rise to 500,000 this year.

But exports alone will not solve the industry's problems.

Mr T. P. G. Nambiar, managing director of BPL, which exports more than 10 per cent of its output, says competition from international competitors means that the price of 14-inch televisions in the UK market has fallen from £81 to £73. "We can always sell abroad but the price is never very profitable."

The incentive is that volumes are boosted and the foreign exchange earned can now be spent on importing goods to improve production.

Like other manufacturers, Mr Nambiar would prefer to see the main growth in domestic markets. For television manufacturing, if not for consumer electronics as a whole, that could be some way off.

The country's film industry is among the world's biggest, reports **Gita Piramal**

Bollywood hears cash registers clink

WANT TO forget the harsh world of reality? For less than Rs10 anyone can do just that for three hours of pure entertainment at one of India's 13,000 movie halls.

With 900 films in 15 languages produced annually, the choice is wide. Some 14m tickets are sold daily. All of which makes the Indian film industry one of the biggest in the world.

Although films are produced in all of India's major languages, the Bombay-based Hindi industry dominates the scene, both economically and culturally.

Dubbed "Bollywood" by its detractors for its near-parasitic dependence on Hollywood's creativity, the popular Hindi cinema has been the staple entertainment of the masses for over seven decades.

Hindi films are released nationally, while regional language ones are released only in individual states.

Currently, the movie industry is in a state of breathless expectation. In the 1980s, producers lost money; in contrast, the 1990s appear both bright and profitable.

At theatre halls, cash registers have started clinking once again as a new generation of teenagers discovers the visual delights of the big screen. Home videos are boosting the trend.

For theatre owners in some states, profits have also improved because of a recent minor tax change providing a modest rebate. No longer are movie theatres being converted into shopping complexes and office blocks.

Though few new cinema halls are opening up, some old cinemas, which had fallen into seediness, are being restored. It is widely expected that the current ratio of eight cinema seats per 1,000 population will improve in the near future.

Moreover, the video onslaught, which had become the bane of the business during the 1980s is no longer the menace it used to be. For almost a decade, rampant piracy robbed film-makers of royalties from video cassette sales, while keeping middle class audiences out of theatres. The Rs12bn film industry faced a challenge from a pirate industry whose turnover was almost equal.

By the late 1980s, however, things had changed. Sporadic police raids and court cases, combined with the accumulation of vast personal fortunes, encouraged the bigger video pirates to legitimise their operations.

Film producers and video pirates signed a reluctant truce. Not only did they start financing films together, but libraries began to stock legally-made cassettes. Licensed video sales looked up and today constitute about 10 per cent of total returns.

One film producer who has been particularly successful in twirling the video boom to his advantage is Mr Ramanand Sagar. According to industry experts, Sagar Studios makes a clear profit of Rs800,000 on every video cassette it brings out. It keeps a tight control on production costs. Each video is made for roughly Rs250,000 – a low figure by industry standards.

Despite the poor quality of sets and computer graphics, videos from the Sagar stable are immensely popular. The secret of Mr Sagar's success? He has cashed on a resurgent Hindu wave. His version of the Ramayan, one of India's two great epics, brought the country to a grinding halt every Sunday morning when it was broadcast on the state-run national television network.

When Mr B. R. Chopra, a rival film-maker, was chosen to serialise the Mahabharat, Mr Sagar shifted to the video medium. His 78-episode magnum opus on the life of Krishna (of which 10 have been produced to date) has been marketed with flair.

Popularity brings its own problems. "We are losing at least Rs30m-40m a year because of cable pirates," grumbles Mr Prem Sagar, managing director. Cable pirates, in fact, are taking over from the video pirates of yesteryear. Unauthorised cable networks in urban areas have mushroomed. For between Rs60-150 a month, they offer at least two cable channels during peak hours. Most also offer Star TV, the new Hong Kong satellite broadcasting station and CNN.

Daniel Green

Filming in Bangalore, Karnataka state

According to Admarg, an independent Bombay-based market research agency, in December 31 there were 12,000 cable operators. There has been a brisk 20 per cent rise in the cable operator fraternity.

Though Star TV is an advertisement-driven free service, cable operators frequently tape popular programmes. Illegal cable screenings of Star TV programmes (which include the BBC World Service, Asia MTV and Prime Sports) as well as locally-produced entertainment software, are rapidly becoming a far greater menace than the video pirates.

The government has promised steps to update legislation on copyright and cable TV, but progress has been tardy.

Ironically, the advent of satellite channels at the same time offers the promise of an additional revenue source for film producers to wash off red inkstains on their profit-and-loss accounts. "At some point, Star TV will have to commission Indian software," agrees Mr Shakti Samant, president of the Indian Movie Pictures Association.

Most Indian film making is financed out of black money. "Much of this comes from the underworld. Indian mafia dons want to meet the starlets and gain respectability at the same time," says Mr Rauf Ahmed, editor of Filmfare, a monthly magazine with 500,000 readers.

The problem is that few legitimate sources of funds are accessible for this high-risk business. With no banking or institutional finance available, film producers are forced to borrow capital at usurious annual interest rates of 36-48 per cent.

Among the hundreds of film companies, just one, the Madras-based G V Films, is a public limited concern.

Film-making is possibly one of the most disorganised ways of making money. "Unlike in other parts of the world, film stars in Bombay work in up to 20 films at a time," says Mr Firoze Nadiadwala, a leading film producer and distributor. Even top directors and technicians have multiple assignments. This results in scattered shooting schedules of films.

Most films take up to two years to complete, with prohibitive cost overruns. That is why out of 900 movies produced in a year, less than 14 per cent succeed in making money. They either die stillborn or distributors refuse to take them up.

In India, films are usually distributed region-wise through one or combination of three options. Producers receive either a minimum guarantee basis (the distributor guarantees to pay the producer a minimum amount irrespective of box-office collections), a flat commission or a refundable advance.

Despite the near-certainty of losses for low-budget productions with untested directors, the glamour and glitz of Bombay's stars continue to attract nouveau-riche suckers. The industry is rarely short of funds.

In such a scenario, the mood is more upbeat than it has been for the past three years. It's time for lights, camera, and action in Bollywood.

Though corporate sales are up, the production index has fallen

Industry feels worried

Top private sector companies				
Rank	Company	Year end	Sales (Rsbn)	Major products
1.	ITC	March 1992	30.17	Cigarettes
2.	Tisco	March 1992	28.95	Steel
3.	Telco	March 1991	26.01	Trucks
4.	Reliance Industries	March 1992	22.74	Textiles, petrochemicals
5.	Hindustan Lever	December 1991	17.75	Soaps, detergents
6.	L and T	March 1992	17.66	Engineering
7.	Grasim Industries	March 1992	14.71	Textiles, cement
8.	ACC	March 1992	14.51	Cement
9.	Bajaj Auto	March 1992	12.79	Two-wheelers
10.	Ashok Leyland	March 1992	10.31	Trucks
11.	Mahindra and Mahindra	March 1991	10.02	Jeeps

Telco and Mahindra are expected to announce their results by the end of the month. These may alter the rankings considerably.
Sources: Centre for Monitoring Indian Economy, and Plus Newsbank

The top 20 business houses				
Rank 1991		Sales Rsbn	Rank 1990	Sales Rsbn
1.	Tata	120.33	1	100.94
2.	B. K.-A. V. Birla	53.88	2	44.33
3.	Thapar	24.43	6	17.24
4.	Bajaj	22.68	4	20.47
5.	Ambani	22.15	3	29.17
6.	RPG Enterprises	19.78	5	19.37
7.	Mafatlal	17.14	8	14.95
8.	G. P.-C. K. Birla	16.56	10	14.22
9.	Chhabria	16.44	7	15.03
10.	Mahindra	15.18	11	13.12
11.	G. M. Modi	14.99	9	14.40
12.	Arvind Mafatlal	13.03	12	11.77
13.	Nanda	12.79	13	10.12
14.	L. N.-S. K. Birla	11.61	*	
15.	Godrej	10.79	15	9.52
16.	K. K. Birla	10.68	14	9.59
17.	Hinduja	10.23	20	7.53
18.	Walchand	9.41	18	8.47
19.	TVS	8.71	*	
20.	M. P. Birla	8.43	19	8.00

*Not in list in 1990 — Source: company balance sheets

THE DICHOTOMY is almost absurd. According to the Department of Economic Affairs, the index of industrial production plunged from 8.5 per cent in 1990-1991 to -0.4 per cent in 1991-1992.

Indeed, in manufacturing (as opposed to mining or power generation), the descent was even swifter. Here, the index fell from 9.6 per cent in 1991 to -2.4 per cent in 1992.

Yet, at the same time, end-of-year company results unveil several islands of prosperity. An analysis of 875 major companies whose audited results have so far trickled in shows that aggregate sales rose by 21.1 per cent over last year. And the Economic Times Research Bureau reports that corporate operating and gross profit moved up by 27.1 per cent and 26.5 per cent respectively.

The most outstanding company performance is that of ITC, a cigarette manufacturer. Its sales rose from Rs22.9bn last year to Rs30.17bn this year, and in the process it became India's premier company in the private sector.

Delving into the figures resolves the apparent conflict between lower production and higher corporate sales.

"If one breaks down the results for the financial year ended March 1992, one sees that the profits of the first half do not really carry through to the second half. A large part of the apparent increase in sales actually reflects inflation and not higher production," says Mr Rahul Bajaj, chairman of Bajaj Auto.

The prospect of a poor monsoon, turmoil in the banking sector, high interest rates and tight credit head a list of negative factors that causes concern in Indian boardrooms. The mood is definitely one of uncertainty and anxiety.

For large companies, and particularly consumer-oriented ones, possibly the most worrying factor of all is a fundamental change taking place in distribution patterns.

In India, goods have traditionally been distributed across the country by small, scattered and independent traders. By giving big companies between three to six months' credit, these traders also play a vital role in financing the companies from whom they buy goods.

Apart from their regular business activity, these traders are heavy investors, if small in scale individually. The recent stock exchange crash after the Harshad Mehta scandal has hit them hard. In a knee-jerk reaction, many have been forced to reduce their regular trading volume, resulting in a Catch-22 situation. Companies meanwhile have been double-whammed: not only has a cheap source of finance dried up but sales have dropped to miserable levels.

Companies dependent on imported raw materials have been badly hit. With 60 cents of every export dollar being converted at free market rates, imports have become 15 to 20 per cent more expensive. A hidden subsidy has vanished overnight

Will the traders recover? And if so, how quickly? Or should companies evolve new distribution patterns to fill the vacuum? Most companies are adopting a wait-and-see approach before taking more radical steps. If orders start trickling in, if the monsoon is not as bad as predicted, and if sales pick up, the old system may survive. The ifs are many and the cost of restructuring high.

The next few years will be difficult for India's corporate captains for other reasons also. India is gradually but inevitably switching from a seller's market to a buyer's one. Facing real competition, both local and international, for the first time is not a happy prospect for industrialists pampered by decades of protection. What is the point of reform if it hits my business, more or less sums up the attitude of the majority.

Moreover, companies which are dependent on imported raw materials have been badly hit by the government's policy on the partial convertibility of the rupee. With 60 cents of every export dollar now being converted at free market rates instead of the government's official rates, imports have become 15 to 20 per cent more expensive. A hidden subsidy has vanished overnight.

Meanwhile, the high cost of money, combined with the demise of monopoly profits, is scaring off capital investment. More and more companies are re-examining the viability of their expansion plans.

One key industry at a vulnerable turning point is the steel sector. Moves to loosen government shackles so as to boost total capacity have been over-cautious and largely ineffective.

For example, before last year's partial decontrol of steel prices, Mukand, a leading Bombay-based mini-steel company, wanted to build a Rs40bn steel plant to produce 1m tonnes a year. Today, Mr Rajesh Shah, Mukand's chief executive, admits: "We are having a close second look at the project."

In such circumstances, the fortunes of India's big business houses may resemble a wild game of snakes and ladders.

Gita Piramal

Profile: IFB INDUSTRIES

Master of fine blanking branches out

THE Marxist-ruled West Bengal has the dubious distinction of having the largest number of antiquated engineering units of all the Indian states. But in West Bengal is also located IFB Industries, which exports around 80 per cent of its production of fine blanked components used in automobiles, mainly to hard currency areas.

Fine blanking calls for the application of highly sophisticated technology. The surprising thing about IFB is that 12 years ago when Mr Bijon Nag, a first generation entrepreneur, chose Calcutta, the biggest city in West Bengal, for investment, a substantial flight of capital from the state to other parts of the country was taking place.

Though he would not admit it, the fact that Mr Nag is a relation of Mr Jyoti Basu, chief minister of West Bengal for the last 15 years, might well have clinched the issue for him. In any case, IFB is one of the rare cases in West Bengal which has not been visited by industrial unrest since it started operations. Political connections have certainly helped.

Even so, as the company's business grew, IFB realised it would be too risky to put all its eggs in a Calcutta basket. In the last few years, it has set up bigger plants in Bangalore and Goa.

IFB's forthcoming venture for the production of electric motors in collaboration with Siemens of Germany will also be in Bangalore. Only recently, the IFB-backed £4m joint venture, European Fine Blanking, has started production at Wrexham in North Wales.

According to Mr Nag, the fine blanked components to be produced at the Wrexham plant will, besides reducing the UK's dependence on imports, be exported to Europe and the US.

Having mastered the fine blanking technology, the company has decided to create more than one production base in the west. While the capacity of the Wrexham plant will be expanded in the next couple of years, a decision has already been taken to have similar units in Czechoslovakia and the US.

When it diversified into white goods, industry watchers thought IFB had made its first wrong move. It had no experience in marketing consumer goods. But the technical tie-up with Bosch Siemens has gone a long way to ensure its success

The success of IFB is largely attributable to its technical and financial collaboration with Heinrich Schmid AG of Switzerland. The Swiss company has also partnered IFB in the Wrexham venture.

Mr Nag admits that the association with Heinrich Schmid has helped IFB in roping in Electrolux Autoliv of Sweden and Rentrop Hubbert & Wagner of West Germany as collaborators for the manufacture of automotive safety belts and car seat reclining systems, respectively. Like fine blanked components, these are largely for export.

When the company diversified into the white goods business two years ago, industry watchers thought IFB had made its first wrong move. The Indian market for white goods is worth more than Rs20bn. But much bigger companies than IFB with strong marketing networks were already in the field. IFB did not have any experience in marketing consumer goods. It had to start from scratch.

The technical tie-up with Bosch Siemens for the manufacture of washing machines has gone a long way in ensuring the success of IFB's diversification. The washing machine plant in Goa has a capacity to produce 125,000 units a year.

According to Mr Nag, IFB will be going all out to develop an export market for washing machines. The company will be making some more white goods, including electric ovens, dish washers and refrigerators.

The likely source of technology is Bosch and Moulinex of France. IFB, which hopes to earn a profit of over Rs140m on a turnover of Rs720m in the year to June 1992 is to grow at a rate of 35 to 40 per cent in the next five years, according to Mr R. N. Sen, executive director. Turnover of IFB group of companies is about Rs1.25bn.

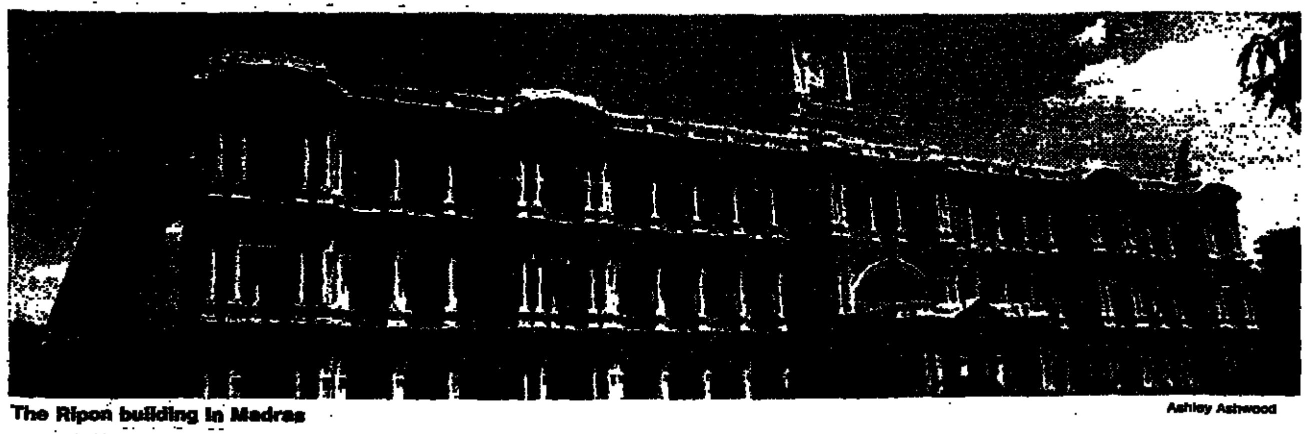
Recognising the risks involved in the white goods business, IFB diversified by taking over two moribund tea estates in West Bengal.

IFB has made these plantations reasonably profitable in the past three years by replanting and by using scientific agricultural practices. In the next five years, IFB's tea production will treble to over 2m kg, according to Mr Nag.

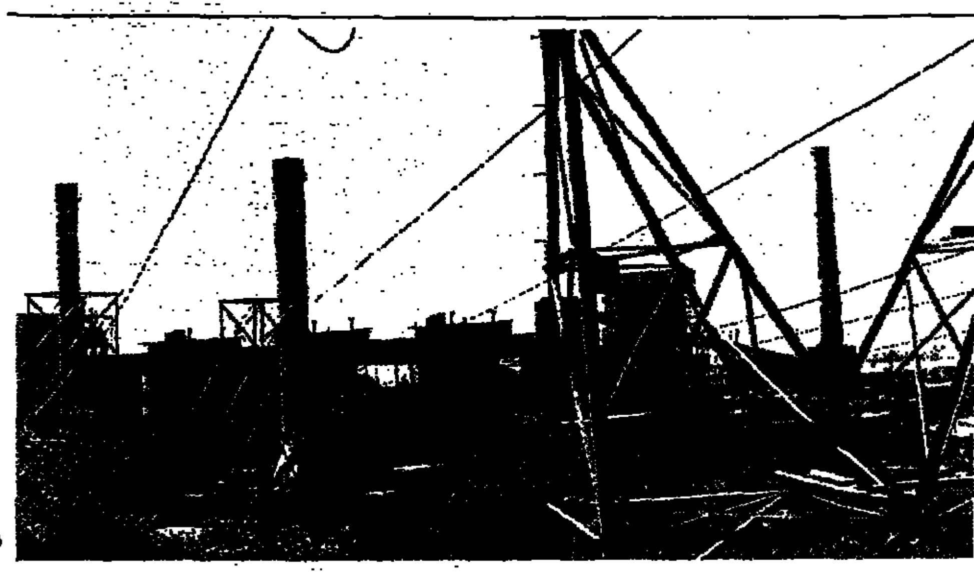
A group company called IFB Agro Industries, engaged in the production of extra neutral alcohol and liquor is drawing up plans to make a number of alcohol-based chemicals. The IFB group being already in the financial services business, it is well placed, according to Mr Nag, to take advantage of the liberalisation policy and offer a host of new services.

Fairly well established in leasing and hire purchase, IFB has decided to float a mutual fund – the private sector is now allowed to operate such funds. It will also provide venture capital and engage in merchant banking. Raising resources to finance new projects is not a problem for IFB, because of its blue chip status on the Stock Exchange.

Kunal Bose



The Ripon building in Madras — Ashley Ashwood



INDIA needs foreign investment to reduce its acute power shortage. Senior Indian officials on a recent tour abroad invited foreign private companies to invest in the power industry. "The response was overwhelming. Some 17 companies and groups have made investment proposals," says Mr S. Rajagopal, secretary to the Department of Power.

The team brought back proposals worth $4bn for eight projects that will involve generation of 4,700MW of power while other companies have made inquiries for six projects worth $2.5bn. If all goes well, work on the first projects will start by the end of the year.

The picture is of Tata Electric's thermal power station at Trombay.

PETROCHEMICALS

A blue chip may emerge

THE SECOND phase of privatising Indian Petrochemicals Corporation Ltd (IPCL), one of the state's few profit-making companies, is scheduled for later this year. In the first phase the government sold 20 per cent of its Rs1.86bn equity to mutual funds; now New Delhi will cut its stake to 51 per cent.

IPCL, seen as an emerging blue chip with sales of nearly Rs20bn last year, operates a hydrocarbon cracker at Baroda, its headquarters in the western state of Gujarat. It has a second cracker and downstream petrochemical units located near Bombay. The company is now building the third cracker at Gandhar, also in Gujarat.

A Rs48.75bn (£938m) investment is planned over the next five years on modernisation and expansion, with Rs34.75bn at Gandhar. The cash-strapped government has given notice that IPCL should raise all the money on its own. Mr Hashmukh Shah, chairman, says IPCL has not relied on budgetary support for years and does not wish to do so now.

Last December, the government sold to mutual funds through bids 20 per cent of the equity at IPCL and several other state enterprises to mop up Rs30bn and narrow the budget deficit.

The Narasimha Rao administration is under pressure from the IMF and World Bank to quicken the pace of economic reforms and cut the budget support to state enterprises. New Delhi is to bring the budget deficit down to 5 per cent of GDP this year from 6.5 per cent last year.

The funds required for the new facilities that IPCL is to build are far greater than the company ever attempted to mobilise in the past. Innovative financing methods are needed.

Mr Shah wants these plans to be in place before he retires at the end of the year. Nearly Rs20bn will come from internal resources and the remainder is to be raised through equity, supplier's credits and commercial loans overseas.

But India's securities market scandal has soured immediate prospects for companies wanting to tap the overseas capital market. Mr Shitin Desai of DSP Financial Consultants says a local issue will have to precede the overseas flotation.

The primary capital market is buoyant despite the securities scam. The convertible stock of Mangalore Refinery, a joint sector company, was oversubscribed nearly five times at the end of May.

Petrochemical shares are fancied by local investors. The Rs10 shares of Nocil, a joint venture of Mafatlal Group and Shell, are quoted at Rs2,100 on Bombay Stock Exchange. Analysts attribute this high price to the track record of management, attractive earnings per share and expectations of future performance.

Mr Shah says the market values the IPCL shares at 10-15 times their par value. The shares were traded unofficially at Rs700 in March at the height of the stock market boom. The government, which sold IPCL equity to mutual funds at the low price of Rs70 per share in the first phase of divestment, is determined to get a proper price in the second phase through a public offer.

But the *stumbling block* is IPCL's poor performance last year. Earnings per share plunged to Rs1.45 from Rs4.81 three years ago. The Bombay petrochemical complex was shut for the best part of the year after an explosion in an ancillary plant.

Mr Shah has to convince investors the future is rosy. He projects the earnings per share to jump to Rs8.9 this year but will level off later as the company intends to double its equity to Rs4bn in five years. Sales are to double to Rs43bn in five years from Rs20bn.

He claims these are conservative projections, making allowance for a moderate rise in profits as the government reduces import tariffs by half to nearly 50 per cent over the next three years and exposes Indian petrochemical companies to overseas competition. Meanwhile, IPCL is exposing its staff to the international market by seeking to establish a joint venture in Saudi Arabia. It is to build a Rs8bn engineering plastics plant with General Electric of the US at Baroda and improve IPCL profitability.

R. C. Murthy

The government's food policy is blamed for depleted food stocks

Farmers seek fairer deal

INDIA IS again, after more than two decades, shopping abroad for foodgrains, reviving memories of the "ship-to-mouth" days 30 years ago when emergency imports had to be made from the US.

The situation is clearly not so bad now, but that the country is once again planning to import 1m tonnes of wheat after attaining surpluses for the past 20 years must raise questions about what has gone wrong with Indian agriculture and the green revolution.

It also raises questions about India's food policy, a related issue, and whether the farmers are getting a fair deal at a time when they are organising themselves after centuries of passive docility. Do farmers get the right incentives? The government has raised procurement prices (the price at which official agencies buy grain from the markets) progressively by more than Rs100m over the past four years.

Despite this, the depleted food stocks have not been replenished this year. Wheat stocks stand at the level of around 11m tonnes after the procurement season is virtually at an end. Official agencies will clearly not buy enough to meet the target of 9.5m tonnes of wheat from the farmers, simply because the latter are getting more than the minimum support price (or the procurement price) from private traders.

Traders have offered stiff competition to the official agencies. They are believed to be hoarding their purchases (as also are rich farmers, who have not brought all their surplus wheat to the market) because they expect shortages to occur in the near future and are waiting for prices to rise.

Such speculation is possible because the food policy has not been recast to cope with the shortages. Belatedly, the government offered a "bonus" of Rs25 a quintal above the minimum support price when farmers fought shy of selling wheat to the official agencies. This still does not match the prices offered by private traders and hence the poor procurement that will fail to make up depleted stocks.

Ashley Ashwood

A farmer collects charal (cattle fodder)

Much of the farmers' resistance to the government's policies have come from the northwestern states of Punjab, Haryana and western Uttar Pradesh. This is where the green revolution took root and enabled the country to raise total foodgrain production from a low 82m tonnes in 1960-61 to 176m tonnes last year.

Even this impressive growth in production is now not enough. Foodgrain production has increased at an average of 1.7 per cent a year while the population is rising at around 2.2 per cent. Far from providing surpluses for export, as the government had hoped for, present production is not enough for the population.

Last year, the monsoon arrived a month late and this upset sowing and harvesting plans in the northwestern states. The fall in production that followed underlines the fact that Indian agriculture, for all the progress the green revolution has made, is still dependent on timely and ample rains, particularly during the monsoon season.

Only a third of India's arable area is irrigated. This raises questions about irrigation policy and whether dependence on large projects was the right answer. Far more has been achieved by successful exploitation of ground water resources in Punjab and Haryana, where easy availability of minor irrigation schemes has gone a long way towards better use of fertilisers and high-yielding varieties of seeds, the basis of the green revolution.

At the same time, it must be emphasised that the current crisis should not detract from the undoubted progress that Indian agriculture has made. Even in a bad monsoon year – and this year will probably record another poor rainfall season and cause fresh problems of food management – a minimum potential has been built up and this is growing every year.

Unfortunately, the population is growing faster – and the farmer is getting wiser – and production in good monsoon years is not sufficient any longer to make up the shortfall in bad years.

The situation is made more serious by the lack of an agriculture policy, which three successive governments have promised but failed to produce. Political pressures are behind this since the farmers, after all, are an important vote-bank. The policy will have to secure a better deal for the farmers and the government's economic reforms do not provide one, at least in the short term.

Fertiliser prices have been raised and are to be raised further as the subsidy on fertilisers is withdrawn. Electricity charges are to be economic and seeds will cost more. All this cannot be spelt out in the policy for political reasons, especially when the farmers are organising themselves and seeking that the rural masses should be treated as "equal citizens".

At present, they believe they are not and clearly the terms of trade operate in favour of urban dwellers.

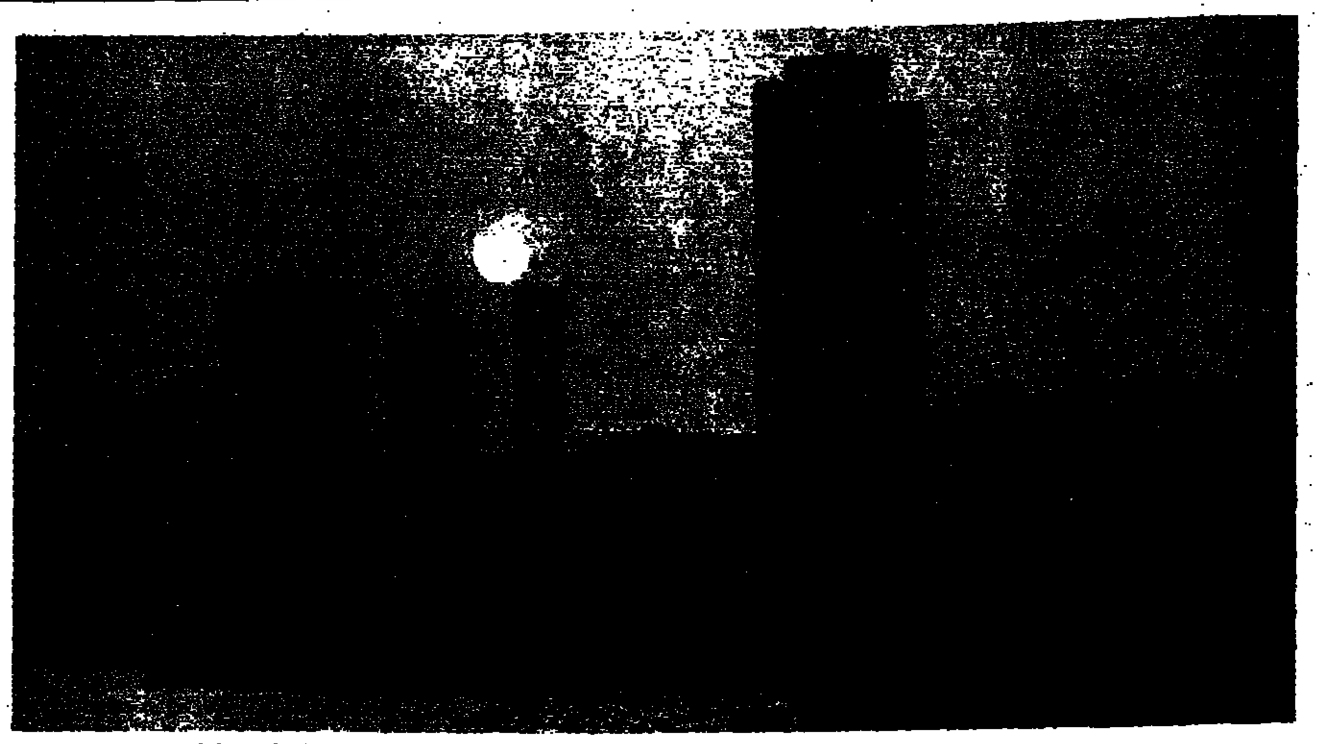
As the farmers have discovered, if they hold out against the official procurement agencies which, they believe, pay them a much lower price than is their due, they can win better prices. The present shortages – and the expected fall in production next year because a good monsoon is not expected – are working in their favour.

Farmers' leaders point out that in the last five years, only 21.8 per cent of total development expenditure was spent on agriculture, rural development, irrigation and special area programmes. Even if social services are included, not more than 24 per cent of the total went to improve the lot of the farmers, who constitute nearly 80 per cent of the population. They also point out that between 1970-71 and 1988-89, production of wheat went up by 71.4 per cent but the support price of wheat compared to wholesale prices of all commodities went down by 44.7 per cent.

The result was that the real income per hectare of wheat growers went down in spite of the substantial increase in production.

Farmers believe that the present crisis, which they are undoubtedly exploiting, caused by inadequate availability of foodgrains, is not due to any deficiency in agricultural practices or the laziness of the farmers but because of flawed price and trade policies. Unless farmers are thought of as human beings and not as machines, production will continue to fall behind the growth of population. Unfortunately, the economic reforms have nothing to say about their problems.

K. K. Sharma



Bombay's commercial district (Photograph by Glyn Genin)

K. K. Sharma on life in a sleepy market town

Why the wheat traders are agog

THE WHOLESALE market in Sohna, a small town in the Gurgaon district of Haryana, lies dormant for most of the year. But for two months in the autumn when the kharif (summer) crop comes to the market and in May and June when the rabi (winter) crop is sold, the ramshackle marketplace hums with activity.

This year, the market's artis (middle-men) are agog at the change in its sales pattern. In previous years, whenever wheat was brought to the market, all but the superior "desi" varieties were automatically bought by the Food Corporation of India, the government's procurement agency. In May, when tractors were busy bringing in trolley-loads of ordinary wheat which the corporation would normally have bought for official stocks, its small office in the market was deserted.

"They (the officials) have little to do. They know they cannot compete with the traders this year," said an arti.

The sale of wheat is a complex business, and it takes the whole day to sell a trolley-load. As the wheat cascades down to the cemented floor, once the sides of the trolley are opened, the arti's employees start to get busy. Women with cane strainers sift the grain carefully to seperate it from the chaff. It is an elaborate exercise that is done manually by throwing the wheat into the air on tray-like sifters, so that the grain separates from the chaff and dirt.

Gradually, a big pile of the cleansed wheat builds up with the small mound of chaff besides it. This operation takes three or four hours. Then, a small group of traders begins to wander from one arti's stall to another, carefully studying the quality of the grain by sniffing it, pouring fistfulls from one hand to another and even tasting it.

"They see whether the grain is broken or diseased. Only the full grain heaps fetch the highest price," explains the arti. Then they start bidding and, in an kind of impromptu auction that follows, the price slowly rises while its farmer-owner stands by anxiously.

In previous years, Dharampal, a farmer who owns seven acres in the village of Indri, sold his grain to the official agencies at the minimum support price. "Some farmers grow desi wheat and the traders came only for this superior quality. This year, they are buying everything," he says.

The bids started at well above the support price at Rs330 a quintal and in a matter of minutes had reached Rs380. "This is best price I have ever got," says Dharampal, beaming with satisfaction. He is happy to have brought his wheat to the market rather, than wait for it to rise.

"Many farmers are holding on to their wheat. I have to sell now because I must repay my debts," says Dharampal. The richer farmers, he says, can afford to wait for the price to rise in two or three months, but he had to sell as soon as his wheat was harvested.

The wheat crop in Sohna has been a good one, says Dharampal. The winter rain, unlike the monsoon, did not play truant and, besides, he has a working tube-well to provide water. He uses urea as a fertiliser in small quantities since it is expensive (he does not know why fertiliser prices have gone up, although he is aware of the "subsidy" on it).

But he sees no reason for shortages because, he says, the harvest has been as good as in the past two years. Dharampal does not know why he is getting such a good price for his wheat. He speaks of "God's grace" and looks to the heavens in gratitude. He is not aware of any ganging up by the farmers and traders, though he has heard of Mahendra Singh Tikait, the militant farmers' leader in Uttar Pradesh, who is fighting for a better deal for his community.

Militancy has not reached sleepy Sohna. The arti is also puzzled at the change this year as, he says, the traders used to buy only the desi variety or damaged grain that the official agencies would not touch. "The farmers have got a good price this year. The government is now picking up diseased wheat only. and not too much of that."

FINANCIAL TIMES
COMPANIES & MARKETS
Friday June 26 1992

INSIDE

Midland shareholders back Hongkong offer

Hongkong Bank yesterday won overwhelming acceptance from Midland shareholders for its £3.6bn ($6.8bn) takeover offer, giving it a total of 63.58 per cent of the British clearer's share capital. The prospect of a significant block of Midland shares lying outside Hongkong Bank's control seems to have been excluded. Page 26

Italy's financial watershed

The departure of Mr Guido Roberto Vitale as managing director of Euromobiliare, the Milan merchant bank he founded in 1973, points to a watershed in Italian finance. His decision follows Monday's resignation by Mr Renato Preti (left) as managing director of Sviluppo, another entrepreneurial merchant bank which thrived in the strong corporate finance markets of the late 1980s. Page 22

Ghana chalks up market hopes

With blackboard and chalk, and a public trading floor laid out like a classroom, Ghana's nascent stock exchange is laying the foundations of what its officials hope will be one of Africa's most promising emerging markets. These ambitions may appear incongruous against the market's C31bn ($77m) capitalisation from 15 listed companies, but the government is committed to selling off more than 330 state-owned companies; and private companies are increasingly looking at raising money through new issues. Back Page

Toyota at a crossroads

Dissension in the boardroom is not a standard canon of Japanese management practice. Yet subtle signs are emerging that Toyota Motor, Japan's most profitable company and its biggest carmaker, is locked in debate over which direction to turn the steering wheel in the face of the steep downturn in the car market. Page 21

Taste grows for Chilean wine

Globe-trotting foreign vintners have been increasingly eyeing Chile's central valleys and a recent survey by the Wine Spectator found the country to be the most popular destination among foreign investors in the business. They are lured by land values that are a fraction of those in the Napa Valley or Bordeaux, the virtual absence of vine pests and a climate that is ideal for viticulture. Page 36

TSB returns to profit

TSB

A sharp reduction in bad debt charge and tight control over costs enabled TSB, the UK's sixth largest banking group, to return to the black in the six months to April 30, with pre-tax profits of £92m ($170.2m). Page 20

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Douglas Hldg	578	+	14	Cetelem	775	+	45
Philips Kommun	650	+	10	Eurocom	680	+	15
Falls				Intertechnique	800	+	25
Colonia Konzern	830	-	20	L'Oreal	921	+	24
Daimler-Benz	778.5	-	25	UFB Locabail	318	+	11
Lohmeyer	762	-	32	**Falls**			
Schmalbach Lub	489	-	48	Ocelf	318	-	18
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Emerson Radio	2¾	+	¾	Litc	26	+	3
Intl Paper	69⅞	+	¾	Marui	1200	+	130
Falls				Nachi-Fujikoshi	391	+	35
Delta Air Lines	53⅞	-	⅝	Nippon Suisan	458	+	36
Lotus Development	19¾	-	4¼	**Falls**			
RJR Nabisco	9⅜	-	⅝	Misawa Homes	940	-	210
T2 Medical	20¼	-	6¼	Nihon Sekiso	200	-	20

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Whitbread A	432	+	21
Airbreak	49	+	6½	**Falls**			
BPB Inds	175	+	10	Amber Day	37½	-	7½
BAT Inds	751	+	18	Brown & Tawse	61	-	5
Brit Aero	272	+	22	Brown Shipley	60	-	35
Caledonia Inv	382	+	23	CMW	43	-	5
Gleeves Group	45	+	7	Finlay (J)	66	-	5
ICI	1222	+	10	Microfilm Rep	178½	-	9½
Midland Bank	454	+	24	Oliver Group	35	-	8
Prolab	435	+	33	P & O	484	-	9
Reuters	1139	+	27	Soundtrace	46	-	4
Rothmans B	1115	+	24				
Shoprite	554	+	25				

Opel falls 19% and sees further drop

By Andrew Fisher in Frankfurt

OPEL, the German subsidiary of General Motors of the US, expects a further drop in profits during 1992 after a 19 per cent fall in net income last year to DM1.1bn ($687m), Mr Gail Gunderson, finance director, said.

This year's earnings decline will reflect the shift in business away from Opel's domestic market – where the post-unification boom in car sales has tailed off – to export markets where margins are lower, he added. However, turnover in 1991 rose 14 per cent to DM27bn.

One factor that held down profits was the model switch from the Kadett to the new Astra family car which caused production to fall 5 per cent to 995,000 units. Model start-up costs were also DM300m higher than in 1990.

Opel also had to write off DM450m of the value of its investment in Saab, the Swedish car company in which General Motors took a 50 per cent stake and management control in 1989. In addition, Opel added to its pension reserves and bore an initial DM125m loss through the acquisition of its east German site in Eisenach where its new car plant will open in September.

To meet rising demand in Germany last year, Opel imported 228,000 vehicles from GM plants in the UK and Spain, a move which also eroded profits. Thus, its total unit sales rose 6 per cent to 1.2m cars, with a 27 per cent jump in Germany to 758,000 and a 16.5 per cent fall abroad to 464,000.

This year, however, almost half of Opel's vehicles will be sold in export markets, compared with 38 per cent in 1991.

"We are selling more cars at lower profit outside [Germany] and fewer cars at higher prices inside," Mr Gunderson said.

Mr Louis Hughes, the chief executive who has just been appointed president of General Motors Europe, said Opel's output in the first five months of 1992 had risen by 3.3 per cent to 590,000 cars.

The target for the full year was more than 1.1m cars, a rise of 12 per cent, reflecting higher production capacity for the new Astra.

He stressed the need to bring down costs and raise productivity at Opel, saying the negative factors on the German industrial scene had reached "a dangerous level".

However, he gave no further details of Opel's talks with unions to reduce labour, especially at its main Rüsselsheim plant near Frankfurt.

Lasmo in $200m assets disposal

By Roland Rudd in London

LASMO, the UK oil exploration and production group, said yesterday that planned US property disposals worth at least $200m would more than offset the reduction in the amount raised from the flotation of Ultramar Corporation.

The flotation of the North American oil refining business owned by Lasmo was expected to take place last night before dealing closed on the New York Stock Exchange.

Goldman Sachs, the US investment bank handling the flotation, has lowered the price range of the 33m shares on offer to between $15 and $17.

This would raise between $495m and $561 instead of the $660m Lasmo originally hoped to raise.

Mr Norman Davidson Kelly, Lasmo's director for corporate development, said the shortfall would be more than made up by planned property disposals.

Ultramar's oil and gas business is valued at more than $100m by Lasmo. A further $100m could be realised from selling Ultramar's US property interests.

The property disposals, expected either later this year or early next year, would be via trade sales.

"It may have to sell one or two things it did not intend to sell," said one of Lasmo's advisers, "but the main thing is that it is selling the North-American oil refining business immediately."

Lasmo's oil and gas businesses, which are based in Louisiana, produce 10,000 tons of oil a day. Ultramar has properties in California and the East Coast.

Mr Davidson Kelly said: "We are very pleased that within six months of acquiring Ultramar we have been able to sell its refining business and concentrate our resources on exploration and production."

Lasmo's disposal of the North American downstream assets, earmarked since it took over Ultramar, was expected to go to a single buyer. However, lack of interest from potential buyers forced the company to seek a flotation.

In the wake of the aborted flotation of GPA, Lasmo shares have fallen because of nervousness about international public offers. The shares yesterday firmed 2p to close at 176p.

However, Goldman Sachs, which acted as US lead manger in the GPA planned flotation, said it was confident that the Ultramar flotation would not be tainted by GPA, which it described as a "one-off situation".

UK merchant bank to complete break-up

By David Barchard in London

BROWN SHIPLEY, the small UK merchant banking group, is to be broken up after making a pre-tax loss of £27.1m ($50.13m) in the year to March 31. The group's holding company will now consist of stockbroking and investment management businesses with a net asset value of £17.3m.

Its banking subsidiary has been sold for £1 to Kredietbank Luxembourgeoise, Brown Shipley's main shareholder, while Leasing Management Services, the group's other main business, has been sold to Woodchester Investments for £5.9m in cash.

The sales complete a process begun in May when Brown Shipley sold its insurance broking operations to Holmwoods Group for £30m in cash and £3m in paper and its offshore operations to Standard Bank Investment Corporation of South Africa for £10m.

Shareholders will be asked to approve the sale of the insurance group at an extraordinary general meeting on July 13. But the stock exchange allowed the sales of the bank and its leasing subsidiary to go ahead without a meeting because of KBL's position as Brown Shipley's main shareholder.

Mr William Dacombe, who took over as chairman and chief executive in November last year, said yesterday the decision to break up the group was forced on it after its two main businesses, leasing and banking, fell into heavy losses.

Leasing Management Services, the group's leasing subsidiary, was hit by lease terminations which produced a loss of £15m last year, while the bank's corporate lending book notched up provisions of £14.7m.

The two combined to drive Brown Shipley, which made a loss of £5.5m in 1990/91, into an unsustainable pre-tax loss of £28.6m in the year to March 31 1992.

At the start of 1991, the group had a total balance sheet of £1.66bn. A year later it was down to £749m. Yesterday the group had a pro forma balance sheet of £69.3m.

Mr Dacombe said yesterday the group was undercapitalised and had to dispose of its subsidiaries. "If we did not have this capital problem we would not be selling things off," Mr Dacombe said.

The four stockbroking businesses of the group were all in profit last year.

The banking group had net assets of £10.4m at the end of March, but made a loss of £32.5m last year. The terms of the sale allow KBL to continue to use the Brown Shipley name if it choses.

Robert Horton

David Simon

Ian Hargreaves on the upheaval at British Petroleum

Sometimes toughness is not enough

From his earliest days as a senior British Petroleum manager, Mr Bob Horton talked tough and acted tougher. His tenures in charge, first of oil tankers, chemicals and then Standard Oil of Ohio, BP's biggest US investment, all involved ambitious reshapings, loud communication and fewer jobs.

Yesterday Mr Horton found that toughness was not enough to ensure a continued hold on his lifetime's ambition – the chair of BP.

Horton joined the company straight from university in 1957 – at roughly the same time as his arch-rival, Mr David Simon. It was Mr Simon who yesterday carried off the chief executive's title.

Throughout his career, Mr Horton tackled and succeeded in some extremely difficult jobs. His already abrasive style was given further edge during his period at the head of BP's North American operations. When he first arrived in Cleveland in 1986, at what was the headquarters of Standard Oil of Ohio, Mr Horton called a big meeting of senior staff and told them that times were hard and that some would lose their jobs.

He then drastically changed the senior management, bringing on younger and more vigorous men, a Horton hallmark throughout his career. In spite of these extensive sackings, Mr Horton was respected and even liked by many of the old Standard men – at least those who survived the purge.

His straight talking, his unconcealed ambition and determination to shake a moribund organisation back into life appealed to the American sense of what a big company chairman should be like. Mr Horton was also assiduous in cultivating civic leaders, showing that under new management Standard would be a "good citizen".

He was clever too in cultivating the investment community, with frequent visits to Wall Street, where his openness and abrasive good humour were well received. On his return to the UK, however, these qualities were less welcomed among British colleagues. Even in a company which cultivates and prizes ambition, Mr Horton was seen as pushy and insensitive.

In judging Mr Horton's tenure at BP, it is impossible to avoid these questions of personality, because Mr Horton made them an issue. As someone who had spent more than three decades inside one of the most bureaucratic industrial corporations in the world, Mr Horton came to the top job in 1990 with a revolutionary manifesto in hand.

Project 1990 contained his proposals to transform a sluggish, committee-driven corporate system into one capable of discovering and releasing the entrepreneurial talents of BP's managers – what he called "the corporate equivalent of perestroika and glasnost". His aim was to shake a culture born in the happy alliance of British imperial greatness and the handsome fortunes of the oil industry in most of the four decades which followed the war.

There were many, both inside and outside the company, who agreed that this was indeed the necessary and urgent focus of BP. It had spent its way foolishly into copper, coal and some other non-oil businesses in the 1970s, until Mr Horton's predecessor Sir Peter Walters had, with Mr Horton's close support, forced BP to lurch back to base.

The BP Mr Horton inherited in 1990 was built around oil exploration, oil refining, chemicals and animal feeds. Since then BP has indicated its willingness to sell the feeds business and would probably, in the unlikely eventuality of there being a bidder, pull back in chemicals too.

But essentially, Mr Horton was able to take the view that the big sectoral adjustments had been made. What he said he wanted was a company capable of responding more sharply and flexibly to the marketing challenges in downstream oil and chemicals and executives more capable of delivering that most elusive but indispensable of oil company assets: the ability to find oil.

As it has turned out, all of this has taken place against the background of weak demand, anaemic oil prices and high real interest rates. These were particularly onerous because BP's debt has risen steeply – partly because, just before Mr Horton took over, it bought back shares which the Kuwait Investment Office had acquired in 1987 when the UK government's sale of its BP stake coincided with the stock market crash.

It has been against this trying background that Horton has launched Project 1990 and tried to make it work.

Project 1990 was spurred by a questionnaire sent to 150 top managers in 1989 and later to 4,000 lower-level employees. It revealed widespread ignorance of BP's strategy and some fierce criticism of the multi-tiered committee and review system, which many felt institutionalised second-guessing in a damaging way. BP head office alone had 86 committees. Horton told his colleagues: "You have one principal task – remove them! If in doubt, eliminate."

The executive power of the old divisional managing directors was to be shorn away and the corporate centre scaled back from 540 people to 380.

All of this was accompanied by a proclamation of values, such as "openness, care, teamwork, empowerment and trust". Sceptics charged that Horton had merely swallowed the avant garde manager's dictionary. Others argued that he was bringing the latest business school thinking to bear on the toughest kind of management problem.

It was an expensive programme – thought to have cost more than £20m ($38m) – with its myriad of workshops, communications and training programmes and transformed view of "human resource" management in the company. The theory was that information would flow, managers would feel compelled to "own" problems and be "empowered" to do something about them.

Inevitably, an attack on corporate baronies, revised job descriptions and job losses produced resistance and bitterness. This reflected itself in an outbreak of samizdat anti-Horton satire within the company.

Last December, the FT profiled Mr Horton in his new office in BP's splendidly refurbished headquarters. Before long, photocopies of the article, with completely rewritten text, were circulating. "The centrepiece is a huge chair," it said, "raised on a stepped platform. Horton greets me and motions me to a seat on one of the lowers steps. 'I designed it myself. It's modelled on Napoleon's throne.'"

Before that, an un-named senior executive had expressed doubts about whether Mr Horton himself could live by the value system he had proclaimed. "Do we really think Bob is going to stop second-guessing his top colleagues? That's the only way all this change will work."

Or to quote another executive: "The character of the man is to direct strongly – he instinctively wants to be seen as hands-on. But he also wants to be seen as an innovative leader."

The word from the palace revolutionaries yesterday was that the Project 1990 and the trek towards a new culture continues. BP has decided that Horton was part of the problem, not part of the solution.

Wellcome 330m share offer valued at £3bn

By Maggie Urry in London

WELLCOME Trust, the medical charity, indicated yesterday it would sell 330m shares in Wellcome, the drug company, in next month's international tender offer. At the closing share price of 914p, up 1p, the offer would be worth £3bn ($5.6bn).

The prospectus, published yesterday, said the group expected pre-tax profits and earnings per share for the year to August 31 to be "significantly higher than in the 1991 financial year". Analysts are forecasting profits of £500m to £510m and earnings of about 36p per share. In 1991 pre-tax profits were £402.9m and earnings per share were 29.3p.

Mr Lawrence Banks, head of corporate finance at Robert Fleming, the merchant bank co-ordinating the global offer, said the 330m figure was "conservative" and he felt "very confident we have excess demand". He did not expect to decrease the issue size.

Mr Roger Gibbs, chairman of the trust, said strong interest had been shown in the shares.

The provisional allocation of shares gives 165m to the UK market, 80m to the US, 25m to Japan and the remainder to be spread around the rest of the world. Within the UK portion, £180m-worth of shares is being earmarked for the public offer.

The company today starts presentations to investors in 29 cities. The official tender process starts on July 6 and is expected to close on July 24. The UK public offer will close on July 21. The tender price and basis of allocations should be announced on July 27 with dealings in the shares suspended for the first 1½ hours of that trading day.

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Bosch checks profits slide as cost-cutting continues

By Andrew Fisher in Frankfurt

ROBERT BOSCH, the German automotive components, telecommunications and engineering group, is continuing its cost-cutting and productivity drive in the face of intensifying world competition, although the slide in profits has been checked, said Mr Marcus Bierich, the chief executive.

He reported a 3.5 per cent drop in net profits last year to DM540m ($338m), with turnover nearly 6 per cent higher at DM33.6bn. This followed a steeper decline of almost 10 per cent in earnings to DM560m during 1990.

Mr Bierich said that turnover had improved by 5.4 per cent to DM14.3bn in the first five months of 1992, with the percentage rise for the full year likely to be about the same as last year. But this forecast was laden with "considerable uncertainties" in view of the worldwide political and economic situation.

The sharp drop in profits that had begun in 1990 was halted in the course of 1991, he said. But customers were still putting pressure on prices – on the motor components side – and Bosch was no longer able to pass on its higher labour costs to purchasers of its products.

Some 4,000 jobs were shed last year within the Bosch group, which employed 177,000 people at the end of 1991. Excluding the additions from new acquisitions, however, the decline was 8,000. A further 1,500 jobs had gone so far this year through non-replacement of those leaving and early retirements.

Mr Bierich said that the latest wage deal in the engineering industry would raise domestic labour costs per hour by an average 5.5 per cent a year. Since competition was too tough to allow more than minimal price rises, productivity would have to rise at this rate to maintain profits and enable Bosch to remain independent.

This meant no overall rise in group employment and further job cuts in sectors with weak profits or poor growth.

TSB turns in £92m at halfway

By David Barchard in London

A SHARP REDUCTION in bad debt charge and tight control over costs enabled TSB, the UK's sixth largest banking group, to return to the black in the six months to April 30, with pre-tax profits of £92m ($173m).

Sir Nicholas Goodison, TSB chairman, said the results were not surprising but showed the bank was reaping the rewards of its restructuring operations since the late 1980s.

"The TSB group is now in much better shape after the hard work of the last three years," Sir Nicholas said, announcing that the interim dividend would be maintained at 3.15p.

A year ago, TSB incurred a pre-tax loss of £150m after bad debt provisions of £422m, following problems in the corporate lending book of Hill Samuel, its merchant bank subsidiary.

Although the result was relatively encouraging when compared with last year's losses, TSB's operating profit was down from £272m to £257m.

City analysts said the results were in line with expectations and suggested that TSB's core retail banking businesses were faring reasonably well in spite of poor market conditions.

Hill Samuel's bad debt charge was £46m, down from £346m a year ago. The merchant bank cut its loss to £54m from £224m.

The group charge for bad debts was also down, falling to £165m from £422m. These included a £37m charge for losses at Mortgage Express, the TSB mortgage company shut down last year. Without this charge, provisions on losses in retail banking would have been flat.

The recession was blamed for a fall in profits at the group's principal businesses. TSB Retail Banking made £121m, down from £128m, and TSB Insurance made £49m, down from £58m.

During the half-year, TSB picked up £1.4bn of higher interest deposits. Total assets were down from £27.3bn a year ago to £25.6bn. Net interest income was barely changed at £487m while other income rose to £434m from £400m.

Its risk asset ratio has risen from 10.6 per cent in April last year to 12.6 per cent. Net assets per share were up from 109p to 114p. Earnings per share were 3.87p (loss of 7.7p).

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Handelsbanken in US bond issue

SVENSKA Handelsbanken, one of Sweden's leading commercial banks, has negotiated a $400m 12-year subordinated bond issue on the US money market which is designed to strengthen its capital base, writes Robert Taylor in Stockholm.

The bond issue was placed through the investment bank Merrill Lynch along with Lehman Brothers and Morgan Stanley.

Mr Arne Martensson, chief executive at Handelsbanken said this was the first time that the bank had negotiated a single bond issue in the American market but this reflected the favourable international view of Handelsbanken's financial strength.

Although hit by credit losses like the rest of Sweden's commercial banks, Handelsbanken remains in a much stronger position than its competitors. Operating profits for the first four months were SKr664m.

Champion surfaces for Eurotunnel investors

William Dawkins looks at the campaign to protect the interests of small shareholders

EUROTUNNEL'S small shareholders are starting to get restive for the first time since the Channel tunnel builder and operator was floated on the stock market nearly five years ago.

A shareholders' action group made its debut yesterday at Eurotunnel's annual meeting in Paris, the first stage in a campaign to ensure they do not get sidelined in any compromise deal with the constructors on cost over-runs.

The action group is headed by Mr Christian Cambier, a voluble former banker who is founder and president of Prigest, a small Parisian fund management group. He claims to have gathered support, over the two weeks since he founded the action group, from about 1,000 out of Eurotunnel's 600,000 mainly small shareholders. They represent about 1 per cent of the equity capital, he believes.

Mr Cambier was not out to make waves yesterday, simply to draw attention to small shareholders' interests. "We are preparing our defences because we fear that the small shareholders could one day become the hostages in the battle against Eurotunnel and the contractors," he explained in an interview.

Transmanche Link (TML), the Franco-British consortium of construction companies, has said it is prepared to accept Eurotunnel shares or other kinds of paper in part settlement of the more than £1bn of extra payments it is seeking. What worries Mr Cambier is that small shareholders might get no rights or reduced rights to subscribe to new shares issued in a Eurotunnel capital increase to pay off the contractors. Small investors could see their holdings seriously diluted as a result, he fears.

"We have been in the project all the way and we know it will be profitable. We don't want the contractors to run off with everything at the last minute," he said.

He suspects that it might be in TML's interests to drive down the Eurotunnel share price before such an offer, to help the contractors get the largest possible percentage stake in Eurotunnel for their money.

This, at least, is how Mr Cambier interprets last month's controversial remarks by Mr Martin Bouygues, chairman of the Bouygues construction group, that he could not exclude Eurotunnel going bankrupt.

A sharp fall in Eurotunnel's share price followed, triggering an inquiry by the Commission des Operations de Bourse, the market watchdog. Bouygues had no comment yesterday.

Eurotunnel says it will agree to no rights issue or paper settlement with TML without consulting an extraordinary general meeting first. Mr André Bénard, its French co-chairman assured shareholders yesterday that their interests would be protected.

Nevertheless, said Mr Cambier: "I want to collect maximum proxy powers for a possible fight at the extraordinary general meeting, which I expect either in the autumn or next spring . . . Eurotunnel is under enormous pressure, from its 223 banks and the 10 contractors. I just want to make sure that we get the opportunity to buy the new shares on the same day and at the same price as everyone else."

He has approached big French institutional investors, like the insurance groups UAP, AGF and AXA to join the group. They have been sympathetic, but have not yet joined – impeded, believes Mr Cambier, by the fact that they already have large investments in the French construction companies.

Mr Cambier has taken up the flag partly on behalf of the clients – whose £100m he has under management – who are Eurotunnel investors. He also has a healthy sense of wariness over the problems small shareholders have faced in Paris in recent years.

Before setting up Prigest 10 years ago, he was a fund manager with Compagnie Financière Edmond de Rothschild, so Mr Cambier has been in the Paris market for long enough to see several examples of small shareholders being given raw deals.

EUROTUNNEL yesterday said shareholders would get their first dividend soon after the end of the decade, throwing uncertainty over earlier forecasts of a pay-out in the year 2000, writes William Dawkins.

Mr André Bénard, the French co-chairman, warned the annual meeting that cost over-runs, changes in revenue forecasts and interest rates could alter Eurotunnel's forecast of a profit before the end of the decade.

"In the current state of things, the payment of the first dividend will come as soon as possible after the first profits, on condition that our agreements with the banks allow it," he said.

The tunnel is due to open in autumn next year, but will not be able to provide a full rail service until summer 1994.

Technically, Eurotunnel is in breach of its bank covenants because of the rise in the project's cost, from £4.8bn in 1987 to more than £8bn. So it can only go on drawing cash so long as the banks give waivers to the covenant. The present waiver will keep the project going through August and September, said Mr Bénard.

Ercros closer to receivership

By Tom Burns in Madrid

ERCROS, the debt-burdened Spanish chemical conglomerate which is controlled by the Kuwait Investment Office (KIO), edged closer to receivership yesterday as negotiations broke down over the sale of a majority stake in its fertiliser subsidiary to Freeport McMoran of the US.

Sources close to Ercros said the KIO, which owns 40 per cent of Ercros, was unwilling to offer Freeport guarantees to cover future losses by the subsidiary, Fesa-Enfersa. A final decision over the guarantees is expected from KIO early next week.

The fertiliser company posted losses of Pta13.6bn ($138m) and is responsible for half of Ercos' Pta99.1bn consolidated debt. A joint fertiliser venture between Fesa-Enfersa and the New Orleans-based commodity company is seen as the only way of averting Spain's biggest corporate failure.

Negotiations for Freeport's acquisition of a 51 per cent stake in Fesa-Enfersa opened last month at the instigation of Mr Javier de la Rosa, the Barcelona financier who was KIO's chief Spanish executive until three weeks ago.

However, the deal, which was for an unspecified amount, ran aground after Mr de la Rosa severed his executive links with KIO and a new management team was appointed that was wary of pumping new funds into Spanish assets.

If the deal is agreed, under the salvage plan the Barcelona financier, who controls a 20 per cent stake in Ercros, would inject Pta10bn into the conglomerate; Spain's publicly-owned bank, Banco Exterior, which is Ercros' main creditor, would lead debt renegotiations; and KIO would be expected to provide a further Pta25bn in capitalisation.

● Telefonica de Espana, the Spanish telecommunications group which also owns and operates telephone networks in Argentina and Chile, is interested in acquiring a stake in Uruguay's state-owned Antel telephone company when it is privatised, a Telefonica executive said in Montevideo, Reuter reports.

The Uruguayan government intends to sell off 60 per cent of the company to foreign and local investors. It has not yet organised a tender for the sale of Antel stock because there is a poll on July 5 calling for a referendum on the privatisation proposals.

March family buys up shares to merge banks

By Tom Burns

SPAIN's March family has been forced to buy out minority shareholders in its investment bank Banco de Progreso before merging it with Banco Urquijo, the medium-sized retail bank that it also controls.

The developments follow the failure of negotiations for the sale of Banco de Progreso to La Caixa, the Barcelona-based savings bank.

Madrid's stock market commission yesterday suspended trading in Progreso following an announcement that Corporacion Alba, the March family holding which owns 40 per cent of Progreso's equity, was offering Pta2,700 per Progreso share.

The price represents a 12.5 per cent premium and values Progreso's five-branch network at Pta20.1bn ($205m).

La Caixa, Spain's biggest financial institution, had signed a letter of intent to acquire Progreso a month ago. The savings bank had aimed to move into corporate banking through the purchase, but it is understood to have objected to the concentration of Progreso's loans and to the price set by the March family.

The decision to merge Progreso with Banco Urquijo that has been suddenly forced on the family involves a potentially messy partnership between two distinctly different institutions. Originally, the March family had hoped to boost Banco Urquijo, whose profits dropped by 20 per cent last year to Pta3.7bn, with funds from the sale of Progreso.

Misawa advances results after shares plummet

By Emiko Terazono in Tokyo

MISAWA Homes, the Japanese house builder, yesterday announced its consolidated results a day early following a plunge in its stock price after rumours of financial problems.

Jitters over Japan's property-related companies have been souring investor sentiment. Last week, rumours of problems at Daikyo, the leading condominium builder, sent the stock plunging, and the Tokyo market with it.

Misawa, following Daikyo's example last Thursday, yesterday denied rumours that it faced financial difficulties stemming from deteriorating business at its resort and golf development subsidiaries.

However, the announcements were far from reassuring. Mr Bernard Siman, property analyst at Jardine Fleming in Tokyo, said: "Assurances are not enough to calm worries; the only way to convince investors is real disclosure."

Misawa's stock price fell by its daily limit of Y210 to Y940. The share price of Daikyo, although recovering from its all-time low, remains 27 per cent lower than 10 days ago.

The prices reflect worries over problems at Japanese property-related companies, notorious for shuffling their books.

Many investors are still shocked by last year's failure of Maruko, a company specialising in one-room apartments and listed on the Tokyo Stock Exchange. Following market rumours of bankruptcy last summer, Maruko announced a restructuring plan. However, it went under a few days later.

Misawa's consolidated pre-tax profits for the year to March plunged 38.8 per cent to Y12.7bn ($1bn) on a 0.7 per cent rise in sales to Y473.2bn.

On a consolidated basis, the company's short-term borrowings rose 34.4 per cent to Y234.7bn during the year, and *interest payments increased by* 34.8 per cent to Y15.5bn.

After-tax profits plunged 94.8 per cent to Y236m, due to a Y1.1bn extraordinary loss on redemptions of its convertible bonds.

Daikyo, despite denials of severe financial problems, is no better off. The company carries 1,800 units in completed inventories, and at the end of last March, held Y214.6bn in short term borrowings and Y431.7bn in long term debt.

Malbak lowers earnings forecast by 10 per cent

By Philip Gawith in Johannesburg

A FURTHER weakening of the *South African economy*, already in recession for three years, has caused Malbak, the industrial holding company in the Gencor group, to lower its earnings forecast for the year to August.

When its interim figures were published in April, Malbak said it was on track to achieve its target earnings of 117 cents per share. Now, however, the company says it expects earnings to be about 10 per cent lower, at 105 cents a share.

The announcement confirms the view of analysts that companies with year-ends this summer are likely to produce worse results than the market *has been anticipating*.

Mr Grant Thomas, executive chairman, said the earnings forecast was the result of a marked deterioration in business conditions with no likelihood of improvement before the financial year-end.

Malbak has a strong consumer orientation with large interests in packaging and paper, food and pharmaceuticals. In the six months to the end of February, the group lifted attributable earnings by 29 per cent to R152m ($54.20m) on a turnover of R5.3bn.

HK retailer abandons bid for French shoemaker

By Simon Holberton in Hong Kong and Alice Rawsthorn in Paris

DICKSON Concepts, the up-market Hong Kong retailer, will pursue its strategy of buying high-quality international brands despite its *withdrawal* yesterday from a HK$235m (US$30.39m) rescue bid for Charles Jourdan, one of France's leading shoemakers.

Dickson agreed terms in April to acquire Jourdan, which has for several years been in financial difficulty, from Biraina Holding, a private Swiss company. Announcing the move, Mr Dickson Poon, the chairman, said the decision had been taken after completing a close examination of Charles Jourdan's financial position.

Mr Dickson Poon, chairman, said his company had come to the decision that proceeding with the bid was not in the best interests of his shareholders. He said confidentiality agreements precluded him from giving detailed reasons for his withdrawal.

"*Our objectives are clearly* stated and we have no plans to alter them," said Mr Poon. "We will not buy for the sake of buying, but if and when the right opportunity arises we will pursue it."

Hong Kong analysts estimate that Dickson has net cash reserves of around $HK400m. On Monday, the company will report its results for the year to March 31. Analysts are expecting net profits of between HK$266m and HK$290m. This compares with earnings of HK$243m in the previous year.

Dickson Concepts is a niche retailer of luxury products. It has an exclusive licence to retail the products of S.T. Dupont in Hong Kong and Japan. Last October, the group acquired Harvey Nichols, the luxury London department store from the embattled Burton Group, for £53.7m (US$99.34m)

Jourdan, known worldwide for its classic women's shoes, said yesterday it had "no immediate plans" to look for another financial partner.

Toyota keeps to its tried and tested formula

But there are signs of dissension over its high-volume strategy, reports Steven Butler

DISSENSION in the boardroom is not standard Japanese management practice. Yet subtle signs are emerging that Toyota Motor, Japan's most profitable company as well as its biggest carmaker, is locked in debate over which direction to turn the steering wheel.

Toyota is trying to decide what implications to draw from the current steep downturn in the vehicle market. Is it simply a cyclical decline from which Toyota and rest of the industry will recover in due course? Or rather, is it the sign of changing times, which will require Toyota to lower its long-term growth expectations, lengthen product cycles, reduce the number of models on sale, raise prices and profits, and stop expanding so aggressively overseas?

Depending on who you talk to at Toyota these days, you could get a very different answer.

The road that Toyota eventually chooses matters a lot to the rest of the vehicle industry. With 41 per cent of the domestic Japanese market, and $13bn in the bank, it is the world's richest vehicle company. This year's expected 30 per cent decline in pre-tax profits is, by itself, unimportant in the longer term because Toyota has the resources to carry on with a low-margin, high-volume strategy for a very long time.

Competitors like Nissan Motor, number two in Japan, which are openly saying they want higher profits rather than growth in sales, may have a tough time realising this goal unless Toyota gives them some breathing space.

The prospect of a turn away from growth strategies has been discussed widely in the Japanese media.

"Yes, there have been a lot of articles about this recently," concedes Mr Soichiro Toyoda, president of Toyota, with a slightly dismissive air, as though Toyota need not overly concern itself with the latest fad preoccupying the press.

"By now, I have more than 30 years experience in vehicles, and it is not the case that the industry only goes up," he says. "It is normal for business to be good and then to be bad. Even though it is bad now, it will improve. Therefore, there is room for hope for the world's automobile industry."

Translated, this sphinx-like pronouncement means that Mr Toyoda does not believe the recession marks the end of an era of rapid growth for the Japanese companies. It is simply one more economic cycle to be ridden out.

A more junior director at Toyota, however, sees the situation somewhat differently, and says Toyota must adapt to longer-term expectations of lower growth and improve the quality of its profits.

"The strategy must be to shift toward quality, to emphasise quality," he says. This does not mean, however, just selling more luxury cars. "I don't think we will be one-sidedly focusing on the upper end of the market."

Not for turning? Mr Soichiro Toyoda, Toyota president

Rather, according to this director, Toyota will have to do what many critics of the company are demanding: raise margins by cutting down on the variety of optional equipment it offers to its customers and pulling out of low-volume niche markets by reducing the number of models available.

"The product cycle will be getting longer," he says. "All the manufacturers will be moving in this direction."

Mr Toyoda, however, sees things somewhat differently. Because Toyota's customers are demanding new models and because Toyota must introduce new technology to meet safety and environmental standards, he says lengthening the model cycle beyond the current four-year standard will be difficult.

He says: "Because of the two factors – the wishes of customers and the hopes of society – our technicians are unable to relax. There is a feeling that we are too exhausted and wouldn't it be nice to lengthen the model cycle, but it is difficult because not all of us agree on this."

It is, of course, natural in a company the size of Toyota that its leaders would not all see the future the same way, and there is no suggestion that Toyota is in disarray. Mr Stephen Usher, analyst at Kleinwort Benson, nonetheless sees evidence of indecision, and of a split in the company's directors between an old guard that does not wish to change its ways, and younger executives who believe that Toyota has reached a turning point.

He says: "They are like the bully on the block who won't back down, but doesn't want to fight any more."

AS Mr Usher sees it, the Japanese carmakers will have to spend enormous amounts of capital in the years ahead to develop a new generation of more efficient, environmentally-friendly cars.

The question is where that money will come from. In years past, when the stock market was booming, Japanese companies could raise capital for next to nothing, 1 per cent or less. Now they are having to pay 7 per cent to borrow money (and Toyota just raised $1bn at these rates).

"Developing the next generation of vehicles will require much higher internal cash-flow," he says. This will have to come from higher prices and profit margins, longer model cycles, and fewer, better-targeted product offerings.

The logic of this argument is obvious to all of Toyota's Japanese competitors, who are to one degree or another heavily in debt.

Only Toyota has the luxury of being able to postpone decision day by running down the enormous pile of cash it has accumulated. For a company as successful as Toyota, whose engineering and management practices are imitated all over the world, it is difficult to imagine that it would fritter away all that it has worked so hard to accumulate.

On the other hand, perhaps Mr Toyoda is right after all, for Toyota if not for the whole industry. Baring Securities has calculated Toyota's return on assets as averaging 10.16 per cent from 1988 to 1991, compared to 3.3 per cent for Nissan and 7.02 per cent for Honda.

While the ratios are lower today, perhaps Toyota's higher profitability will in the end enable it to generate the cash it needs without a change in strategy. And if the competition has to sweat in the meantime, well, that's capitalism.

BHP results expected to reflect Australia's depressed economy

By Bruce Jacques in Sydney

THE Australian financial markets are likely to be presented with a microcosm of their depressed economy later today when the country's biggest company, BHP, reports its results for the year to May.

Analysts expect the company, with interests extending through the fundamental economic sectors of steel, minerals and petroleum, will report its lowest earnings since 1987.

Earnings estimates range widely, but are generally between A$800m (US$600m) and A$900m, a big fall on the previous year's record A$1.4bn net profits.

BZW Australia analysts are at the *lower end of the scale, forecasting a* bottom line of A$812m, while SBC Dominguez Barry is forecasting A$882m. Any result in this range would bring to an end a run which has seen BHP's earnings almost double since 1987.

Many believe that growth was hit by the shock to management of an attempt by the late Australian entrepreneur, Mr Robert Holmes à Court, to wrest control of the company.

The attempt was only beaten off by a marriage of convenience between BHP and the Foster's Brewing group, then Elders IXL, and headed by another Australian in the entrepreneur class, Mr John Elliott.

Ironically, as it announces its results, *BHP is negotiating to take virtual con*trol over Foster's, having placed the brewing group's leading shareholder, Mr Elliott's International Brewing Investments (IBI), in receivership.

BHP is still negotiating to buy out a syndicate of banks which has prior-ranking security over A$1.2bn owed by IBI, and there were suggestions last night of a significant development today.

BHP's minerals division is expected to be its 1991-92 earnings mainstay, having contributed A$505.6m of the A$686m profit the company reported for the nine months to February.

The overall nine-month result reflected a dip of nearly 40 per cent, with the steel division reporting a 43 per cent earnings fall to A$134m and petroleum off 41 per cent at A$305m. The minerals division restricted its earnings fall to 23 per cent.

The depressed Australian economy has forced BHP to sell its growing steel output into lower yield export markets. Steel exports rose almost 23 per cent to 2.42m tonnes in the latest year, with domestic despatches falling 8 per cent to 3.17m tonnes.

But BHP's coal and iron ore output ran at near record levels, although prices for these commodities have fallen. Petroleum products production was mixed and affected by lower prices.

Trizec cuts payout after drop in interim profits

By Bernard Simon in Toronto

TRIZEC, North America's biggest publicly-traded property developer, has cut its dividend as part of efforts to shore up the real estate arm of the vast business empire controlled by Toronto's Bronfman family.

Trizec's decision to cut its semi-annual dividend, from 18 Canadian cents to 12 cents a share, comes on the heels of a C$275m (US$229m) privately-placed equity issue earlier this month. In addition, its 67 per cent-owned subsidiary, Bramalea, last week announced that it was suspending dividends and seeking to restructure its debt.

Trizec and Bramalea have combined long-term borrowings of C$14.6bn, which is about C$1bn more than the debt of ailing developer Olympia & York. O&Y has a minority stake in Trizec.

Calgary-based Trizec reported earnings of C$12m, equal to a loss of 1.4 cents a share, for the six months to April 30, down from C$31.8m, or 7.9 cents a share, a year earlier. Rental revenues rose slightly to C$694m from C$685m. The figures include consolidation of loss-making Bramalea.

Cash-flow from operations tumbled to C$72.8m from C$114.6m, due to interest payments on recently-completed developments. The interest bill for the six months rose to C$233m from C$220m.

Trizec controls over 300 income-producing properties, with space roughly 25 times that of London's Canary Wharf. The company said that occupancy in its office buildings had risen slightly in the past six months to 90 per cent. Occupancies in US shopping centres had also improved to 92.5 per cent.

But Mr Kevin Benson, president, said no significant recovery was likely until 1993.

Trizec's recent share issue, which diluted its equity by almost 40 per cent, underlines the difficulty which North American property developers are experiencing in raising debt.

The shares were issued at C$4.50 each, which marked a 20-year low in Trizec's share price.

Trizec's controlling shareholder, Carena, contributed C$50m towards the issue. Nonetheless, outsiders are interpreting the issue as a sign that the Bronfmans' top managers would prefer Trizec and Bramalea to sort out their problems by themselves.

Gulf Canada halts dividends

By Bernard Simon

OLYMPIA & York has lost a significant source of income with a decision by its 75 per cent owned subsidiary, Gulf Canada Resources, to suspend common share dividends.

Gulf paid a dividend of 40 cents a share last year, which translated into payments of C$46m (US$38.3m) to O&Y.

Gulf continues to pay dividends, however, on its preferred shares. O&Y owns 82 per cent of the preferreds, and its income from this source was C$34m in 1991.

The halt in common dividends is designed to help Gulf pay down debt and to maintain investments in Russia, Indonesia and western Canada. The company said yesterday that it was one of two western oil companies which Russia has exempted from its oil export tax.

Gulf said removal of the tax allows it to step up production of the KomiArcticOil joint venture in Siberia, in which it has a 25 per cent interest.

In another move to generate cash, Gulf is buying the 55 per cent it does not already own of Beaufinco Equipment, which operates an Arctic oil drilling venture.

General Mills lifts earnings

By Nikki Tait

GENERAL Mills, the US cereals and restaurant group, reported after-tax profits of $495.6m in the year to end-May, compared with $472.7m in the previous 12 months.

In the final three months, net profit was $93.1m, compared with $90.9m previously. Both final-quarter and full-year figures for 1992 are scored after a $10m charge, relating to a potential lease adjustment being negotiated with R.H. Macy, the bankrupt US department store group.

KKR agrees to invest $300m in TW Holdings

By Nikki Tait in New York

KOHLBERG Kravis Roberts (KKR), the New York-based leveraged buy-out specialist, has agreed to make a $300m equity investment in TW Holdings as part of a recapitalisation at the restaurant and food services group.

If the deal, which is still subject to some conditions, goes ahead, KKR would end up by a 47.2 per cent stake in the company, recently described by one analyst as the fourth-largest US food service operator.

The South Carolina-based company was subject to a leveraged buy-out bid in the late 1980s. In 1990 and 1991, it made operating profits of $238.3m and $224.6m respectively on annual sales of around $1.4bn. But interest charges on its substantial debts, meant after-tax losses of $67.8m in 1990 and $67.6m in 1991.

Under the proposed recapitalisation, KKR would purchase 100m newly-issued shares in TW Holdings at $3 each.

Richemont registers steady growth

By Philip Gawith in Johannesburg

DESPITE lower tobacco profits from Australia and a difficult year for luxury goods, the Swiss-based Richemont group, controlled by the Rupert family in South Africa, recorded an 11 per cent rise in earnings in the year to March.

Sales rose by 4 per cent to £3.1bn while pre-tax profits advanced by a similar margin to £620m ($1.15bn). Attributable profits, before extraordinary items, were 11.3 per cent higher at £197.3m. Earnings per depositary unit rose 11.3 per cent to £343.60, while dividends per unit are being increased by 11.1 per cent to £56.25.

The company also plans to subdivide the Richemont units in the ratio of 10 to 1 to bring them to a level more comparable with the shares of other leading companies on the Swiss stock exchanges.

Richemont has large interests in tobacco and luxury goods. Companies and brand names which form part of the group include Rothmans, Dunhill, Cartier Monde, Mont Blanc pens and Piaget watches.

Richemont is a highly sought after share in Johannesburg, because of its hard currency earnings. Its market capitalisation of about R19.2bn ($6.86bn) is the highest of any industrial company on the Johannesburg Stock Exchange. It is trading on a price/earnings multiple of 23.2 and a dividend yield of 0.7.

Tobacco operating profits from subsidiaries rose by 15.4m to £367m, due largely to improved profitability in Canada, Germany and Poland.

Meanwhile, operating profits on the luxury goods side rose to £214.6m from £205.1m. Costs savings helped boost Cartier's profits by 7.6 per cent to 163.6m. Sales at Dunhill were 10.6 per cent higher at £230.4m due to the purchase of a substantial interest in Alfred Dunhill's Japanese distributor. Dunhill operating profits were marginally higher at £55.7m.

Midland makes its mark on Milan

Haig Simonian on Euromobiliare's planned management changes

THE departure of Mr Guido Roberto Vitale as managing director of Euromobiliare, the Milan merchant bank he founded in 1973, points to a watershed in Italian finance.

Mr Vitale is not stepping down until October, and thereafter will remain on the board. But, combined with Monday's resignation by Mr Renato Preti as managing director of Sviluppo, another entrepreneurial merchant bank which thrived in the strong corporate finance markets of the late 1980s, it suggests the end of an era.

Mr Vitale's decision probably rests on a mixture of personal and institutional factors, heightened after the UK's Midland Bank, which already owned 49 per cent of Euromobiliare, assumed control of a further 5 per cent last year, giving it a decisive majority.

Closer integration into the Midland network may have been inevitable, even without the recent raft of problems which have confronted Euromobiliare.

Mergers and acquisitions operations have been increasingly dovetailed with Midland Montagu, the investment banking arm of the UK institution. Euromobiliare managers now commute regularly between the City of London and Milan.

But Midland's concern with Euromobiliare has undoubtedly grown, following its collapse in profitability. The bank reported a group loss of L976m for 1991 and passed its dividend, compared with net earnings of L9.5bn ($8.09m) in 1990.

The causes were diverse. Income from equity trading slumped, owing to plunging volumes on the stock market, while Euromobiliare also made heavy write-downs on its own portfolios as a result of falling share prices. Meanwhile, staff costs had accelerated following steady expansion.

But among other factors was a L5.5bn write-down of the bank's position on its holding in VM Motori, the motors group for which it arranged a management buy-out in 1989. To cap it all, Euromobiliare suffered L3.5bn net foreign exchange losses.

Cutting costs through job losses and avoiding the same mistakes again are part of Midland's new recipe. Mr Sencar Toker, Midland Montagu's director for Europe who will now chair Euromobiliare's executive committee, points to retrenchment.

Guido Vitale: stepping down in October

The bank will concentrate on the three core businesses of fund management, corporate finance and securities trading. Illustrating its priorities, Euromobiliare is paying L30bn to buy a Florence-based fund manager with around L1,000bn under management.

But Mr Vitale's decision and the changes at Euromobiliare also reflect wider factors. Bankers say Mr Vitale may have been losing steam after almost 20 years at the company. And Euromobiliare's image has suffered recently from staff defections and its association with L'Indipendente, the newspaper it helped to launch last year.

The management changes come as Italian merchant banking undergoes a wider transformation. Economic recession has caused a drop in corporate finance and M&A business. The market has become more competitive as some of the world's top investment banks have moved into Milan in the 1990s.

Some bankers think houses like Euromobiliare, which made their name with audacious corporate finance deals on the back of Italy's economic boom in the 1980s, will have to respond.

With fewer mandates and more competition, the presence of Midland – plus the Hongkong and Shanghai Bank – with its wider international links, may have become more important.

That has been true at Sviluppo, whose founder, Mr Francesco Micheli, sold control to the Dutch ING banking and insurance group last December.

With the Mr Vitale's gradual retreat, it appears to be the case at Euromobiliare, too.

Venezuela to restructure $1.5bn of debt

By Joseph Mann in Caracas

VENEZUELA plans to stretch the maturities on a portion of non-restructured external debt from two to four years by issuing new bonds.

It is to restructure up to $1.5bn of obligations maturing in 1992-93, out of a total of $5bn in non-restructured public sector external debt.

This includes commercial paper issued to cover Venezuelan military purchases and non-guaranteed credits on exports to Venezuela.

Mr Pedro Rosas, finance minister, said the government planned to issue Republic of Venezuela bonds with maturities of up to four years to cover the refinancing. They may be in US dollars, other hard currencies or Venezuelan bolivars.

BP America to axe 600 jobs in cost-cutting move

By Alan Friedman

BP of America, citing the impact of recession, said it plans to cut its US operating costs by $125m by eliminating 600 to 700 jobs in its corporate headquarters staff and refining and marketing divisions.

The job cuts, to be felt largely in the Cleveland, Ohio, region, where BP of America is based, were presented as part of the British energy group's programme of seeking $750m of cost reductions.

The new US cuts, which include the near halving of BP of America's Cleveland-based corporate headquarters staff of 610 people, mirror the UK head office job reductions announced in April. At that time, BP said it was eliminating 700 of the 1,450 jobs from its head office at Britannic House in London.

Beyond the 250 to 300 job cuts at it Cleveland headquarters, BP of America also plans to eliminate between 375 and 500 refining and marketing jobs from its BP Oil and BP Chemicals divisions in the US.

The US job cuts come less than three weeks after BP of America said it was planning to dispose of assets in Florida and California, including more than 300 petrol stations and two distribution terminals. That decision marked a turnround in BP's US strategy of building up its west coast network of filling stations.

Last month, BP raised $314m by selling off its 56.94 per cent shareholding in BP Canada.

After the new job cuts, BP of America will still have nearly 35,000 employees. Its 1991 turnover was £9.3bn ($17.2bn).

Lotus warns of earnings below expectations

By Karen Zagor in New York

LOTUS Development, the US personal computers software publisher best known for its spreadsheet programs, yesterday warned that its second-quarter results would disappoint Wall Street.

Although the company expects earnings per share to rise by at least 40 per cent to between 30 and 40 cents for the quarter to June 30, the results are significantly lower than the 45 cents analysts had expected.

The stock market reacted to the news by marking Lotus's shares $4¼ lower to $19¼ in active morning trading.

In 1991, second-quarter net income was $9.1m or 21 cents a share on revenues of $186.4m.

Financial Times Annual Report Service

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Investor AB
The heart of Swedish industry in a single company. Investor AB is Sweden's largest industrial holding company with total assets of approximately SKr 80 billion. *Investor AB has two areas of operationss – industrial* holdings and industrial operations. Industrial holdings consist primarily of strategic shareholdings in Astra, STORA, Incentive, ASEA, SKF, Atlas Copco, Ericsson and Electrolux. Industrial operations consist of the subsidiary *Saab-Scania Group, which comprises Scania Truck & Buses, Saab* Aircraft, Saab-Scania Combitech, Saab-Scania Finance and Saab Automobile, owned jointly with General Motors. In the last ten years, Investor AB's net worth has increased by more than 20 per cent per year.

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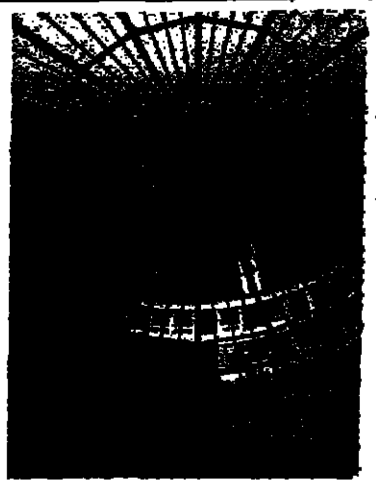

Electrowatt
Electrowatt Ltd is a Swiss holding company of a group of international companies active in the fields of energy, industry and services. These companies have established significant or leading positions in their markets: power generation and distribution – security and building automation systems, electronic components – engineering and general contracting. Consolidated group sales have increased by 56% to Sfr. 4.5 billion over the past 5 years. During the same period the consolidated net income has risen by 73% to Sfr. 209 million and return on equity by *120% to 11.2%. 61%* of sales are generated outside Switzerland, primarily in the EC.

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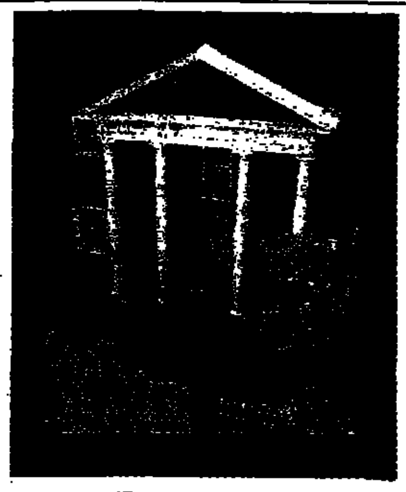

O'Brien Environmental Energy
O'Brien Environmental Energy is a worldwide developer and owner of combined heat and power and other alternative fuel projects which generate energy sold under long- term contract to industrial users and the mains. The company currently has operational projects producing nearly 400 megawatts and a further backlog under development. The company's activities are supported by locations in the US and UK. The 1991 Annual Report details O'Brien's environmentally driven significant growth (three year growth rate averaging 40%) and strong market potential.

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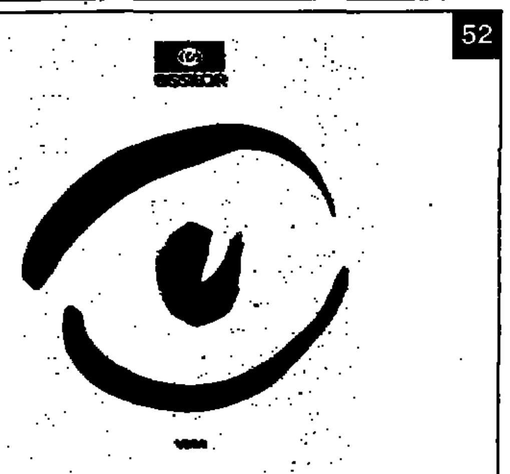

Essilor
Essilor is the world's leading ophthalmic opticals company, with a full range of corrective lenses, frames, contact lenses, and optical instruments. It is highly globalized, with sixteen production plants worldwide, over sixty companies in all of the major world markets, and 71 per cent of turnover derived from international operations.

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Saga Petroleum a.s.
In 1991, Saga Petroleum a.s. had a turnover of NOK 4.6 billion and a profit before year-end adjustments of NOK 777 million. The company's combined oil and gas reserves amount to 143 million tonnes of oil equivalent making Saga one of the world's largest independent upstream companies in terms of reserves. Saga has interests in the Oseberg, Gullfaks, Statfjord, Heimdal and Murchison fields which are in production and is the operator of the Snorre, Tordis, Vigdis and Midgard fields on the Norwegian shelf. Saga intends to further strengthen its position on the Norwegian shelf while also gradually increasing its activities abroad.

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PLM
Today, PLM is one of the ten largest packaging companies in Europe with 14 production units in seven countries. PLM's invoiced sales during 1991 amounted to SEK 6,172 million, of which 77 per cent was outside Sweden. PLM employs 6,358 people. The 1991 financial year was a good year for PLM. The trend of improved results established over the past few years continued. Earnings after financial items stand at almost half a billion SEK. This can only be interpreted as confirmation that the strategy to concentrate the operations primarily on beverage cans and glass packaging is correct. PLM's ambition is to strengthen its position in the European market.

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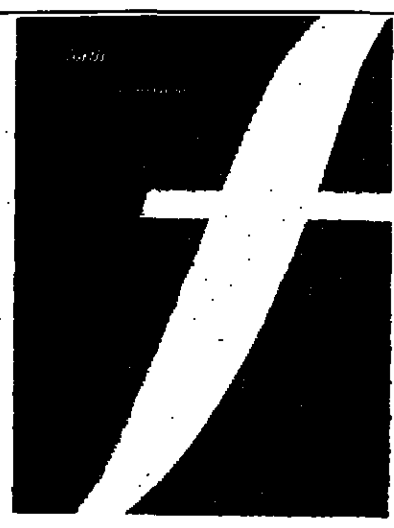

Fortis /N.V. AMEV
Fortis is an international insurance and banking group, formed on 12 December 1990 when its two parent companies, AG Group in Belgium and N.V. AMEV in the Netherlands, combined their operational activities. The group's operations are widely spread, both geographically and in terms of products. Fortis companies are active in insurance, banking and other financial services in Europe, the United States, Australia and South East Asia. Since its creation, Fortis has resolutely pursued a strategy which aims to secure a leading position in the markets in which it operates, through growth in both business volume and profits. The Fortis Group Report and the N.V. AMEV Annual Report, both of which you will receive, give you comprehensive information.

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Deminex
DEMINEX – Deutsche Erdölversorgungsgesellschaft is Germany's leading international E&P company with oil and gas interests inter alia in the North Sea, the Americas as well as in the Middle and Far East. In 1991, DEMINEX's worldwide oil production totalled some 50 million barrels and gas sales doubled to over 35 BCF. The Group's revenues rose to DM 2.0 billion. The company, which e.g. participates with sig*nificant interests in the development of the Snorre and Scott fields in the* North Sea, is also operator of the first consortium of Western oil companies with exploration and production rights in Albania.

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Pernod Ricard
Leader worldwide in anis-flavoured drinks, largest spirits producer and distributor in continental Europe, leading French producer of fruit drinks, ciders and grape juice, world's number one manufacturer of fruit preparations for food industry.

1991 Key figures
Sales net of sales and excise tax: FF 15.2 billion
Net income, Group share: FF 956 million
10,762 employees
Production units: 91 units including 49 outside France
Chief Executive Officer: Patrick Ricard

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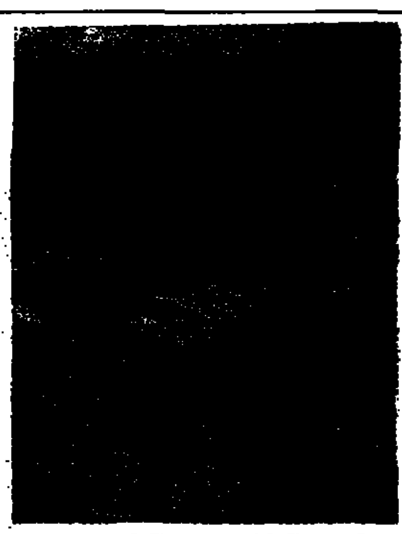

AG Armeno Mines and Minerals Inc.
AG Armeno Mines and Minerals Inc. is a Canadian-based junior mining company, dedicated to the development of quality world class mining projects. Armeno's Ecuadorian San Bartolome mining complex is recently completed and ready for the commercial production of gold/silver/lead/zinc. With solid fundamentals and diversified interests, Armeno is a junior resource company which has the potential to rapidly develop into a major.

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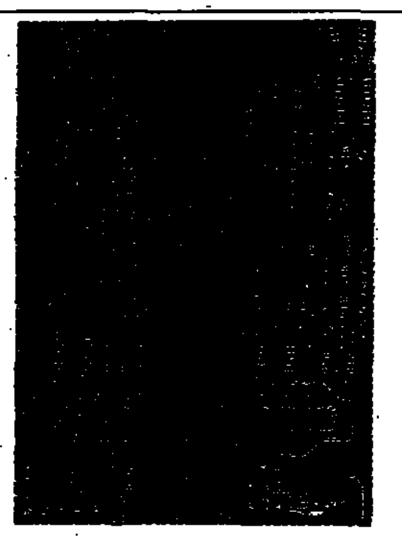

Incentive
Incentive is a new large Swedish industrial group formed through the division of the ASEA Group. Incentive has a turnover of SEK 14 billion, 14,000 employees and 200 companies all over the world. Incentive is active in these business areas: •Materials Handling • Transportation • Construction & Environment • Process Industries • Imaging Technology • Power • Other Operations. These areas include world known companies such as Hasselblad, Orrefors, Hägglunds, Garphyttan and Munters. Incentive also has important shareholdings in ASEA, Electrolux and ESAB.

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AGF
In 1991, AGF achieved FF 55.3 billion in premium income (up 20.2% from the previous year) and net earnings of FF 2.69 billion (constant as compared to 1990). AGF is present in over 38 countries through a network of branches, agencies, subsidiaries and associated companies. In 1991, AGF's international activities represented 38% of premium income. The Group employs 22,000 people throughout the world. Business in France is generated through 1,500 general agencies, located throughout the country, and via the largest life-insurance sales network in Europe. Chairman of the Board: Michel ALBERT. General Managers: Jean-Daniel LE FRANC and Yves MANSION.

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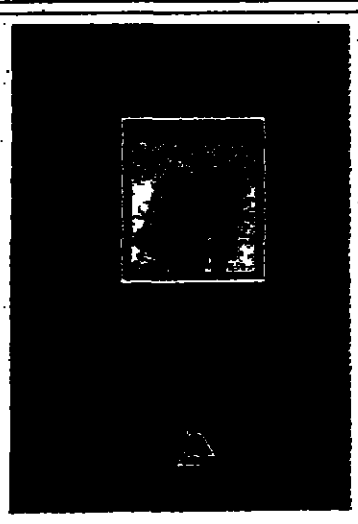

SCA
The SCA Group is seeking to develop a structure that offers distribution of risks from an earnings growth and financial standpoint while also reducing the Group's dependence on highly cyclical and capital-intensive bulk products. The strong expansion of the Group in recent years through the Hygiene and Packaging business groups should be viewed primarily in the light of this *effort to achieve a better spread of risk.* These business groups are much less dependent on general economic conditions.
In 1991, net earnings after financial items amounted to SEK 1,225 M. Earnings per share were SEK 5.27.

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VEBA
Powerful New Impetus.
VEBA stands for energy, chemicals, oil, and trading / transportation / services. The capital of VEBA is held by 540,000 shareholders. The Group has been given powerful new impetus by the Western European Single Market and the emancipation of Eastern Europe. VEBA continued the pattern of growth in all divisions in 1991. Group net income was at DM 1,095 million and matched the favourable level achieved the previous year. The earnings per share increased to DM 29.00.

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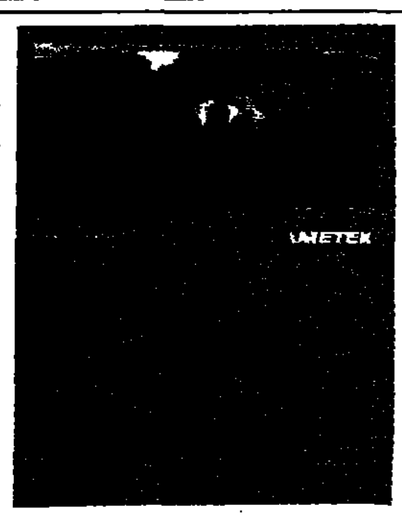

AMETEK, Inc.
Can a successful 60- year- old industrial manufacturer be competitive and profitable in today's global markets? AMETEK focused on maintaining its market position as a top quality producer of instruments, electric motors and engineered materials, but profitability lagged. Now, recent results indicate *management's been moving in the right direction: with tightly-paced Return* on Assets goals met at most operations, 4th quarter profits were up 26% and 1st quarter '92 up 31% while market share increased. (NYSE-AME)

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Euroc
Euroc is one of Europe's large manufacturers and distributors of mineral-based construction materials, and one of the world's big cement enterprises through Scancem, a 50-50 partnership with Aker (Norway), with operations in Europe (Castle Cement in the U.K.), the U.S. and Africa. Other core products include precast concrete products, ready-mixed concrete and aggregates, facing brick, brick roof tile and plasterboard. Important growth markets are the U.K., Germany and the Benelux countries. Euroc's earnings declined to SEK 151 million (1990:560), mainly due to lower demand, stiffer price competition and restructuring costs. Risk-bearing capital improved 4 percentage units and cash flow is expected to remain positive even if earnings will decline further in 1992.

The Financial Times Annual Report Service is appearing on 23, 24, 25, 26 June 1992.

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INTERNATIONAL CAPITAL MARKETS

Gilts move higher as trading remains buoyant

By Sara Webb in London and Patrick Harverson in New York

UK government bonds gained more than a quarter of a point as the market remained buoyant in the wake of Wednesday's successful auction of long-dated stock.

GOVERNMENT BONDS

The Bank of England sold £2.75bn of 9 per cent Treasury stock due 2012 on Wednesday in its largest-ever gilt auction. Long-dated gilt issues underperformed in the run-up to the auction because of concern about the large amount of stock due to go on sale.

However, dealers said that with the auction no longer overhanging the long end of the market, longer-dated issues are likely to stage a rally, recouping some of the losses made in the wake of the Danish referendum on the Maastricht Treaty and ahead of the auction itself.

Dealers warned that the market will be looking ahead to this weekend's EC meeting in Lisbon for further developments on European economic and monetary union.

The Liffe gilt futures contract opened at 97.26 and reached a high of 98.00 before slipping back to 97.28. In the cash market, the benchmark 11¾ per cent gilt due 2003/07 rose from 115⅝ to trade at 116⅜ by late afternoon.

■ GERMAN government bonds slipped back yesterday after rumours circulated that there may be a new 10-year Federal bond issue next month. The bund futures contract opened at 87.70 and fell from its high of 87.77 to close at 87.63.

News that inflation in the western German state of Baden-Wuerttemberg rose 0.3 per cent in the month to mid-June, giving a 4.2 per cent year-on-year increase, had little impact on the bund market, dealers said, even though this represents a slowdown compared with a 4.4 per cent year-on-year rise in May.

Dealers noted steady buying of Belgian government debt by investors switching into the D-Mark bloc, leading to a further tightening in the yield spread over Germany and France. In the last week, 10-year Belgian-German yield spreads have narrowed from 95 basis points to 87 basis points.

■ US Treasury prices rose yesterday morning in response to news of an unexpected increase in weekly jobless claims. By midday the benchmark 30-year government bond was up ⅜ at 102⅜, yielding 7.8 per cent. The two-year note was up ⅛ at 100⅞, yielding 4.92 per cent.

The early buying was sparked by the Labor Department's announcement that in the week ended June 13 initial claims for state unemployment insurance rose 16,000. The figures surprised the market, which had been expecting a modest decline in claims, and boosted hopes that the Federal Reserve might cut interest rates to stimulate the flagging economic recovery.

The Fed's key policy-making Open Market Committee meets next Tuesday and Wednesday to review monetary policy, and bond investors hope that a string of recent bearish economic data will persuade the FOMC to sanction a policy ease.

■ JAPANESE government bonds rallied early yesterday, helped by a strong yen and firmness in US Treasury bonds overnight. However, profit-taking late in the session left bond prices only marginally higher on the day.

The yield on the benchmark No 129 JGB moved from its opening of 5.32 per cent to reach 5.285 per cent, but ended the day at 5.315 per cent after substantial profit-taking. The futures contract climbed from 102.66 to a high of 102.85 but closed at 102.58 after heavy selling.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA	10.000	10/02	108.2095	+0.492	8.77	8.81	9.08
BELGIUM	9.000	08/01	100.4000	-0.050	8.93	8.93	8.78
CANADA *	8.500	04/02	102.4800	+0.850	8.13	8.14	8.49
DENMARK	8.000	11/00	99.5000	+0.300	9.07	9.13	8.79
FRANCE BTAN	8.500	03/97	99.0117	+0.074	9.01	9.03	8.74
OAT	8.500	11/02	97.9900	+0.050	8.79	8.78	8.54
GERMANY	8.000	01/02	98.8800	-0.100	8.04	7.96	7.94
ITALY	12.000	05/02	95.6400	+0.050	13.19†	13.28	12.61
JAPAN No 119	4.800	06/99	96.0400	-	5.59	5.61	5.79
No 129	6.400	03/01	105.5300	+0.173	5.30	5.39	5.57
NETHERLANDS	8.250	02/02	98.4000	-0.040	8.33	8.28	8.29
SPAIN	11.300	01/02	98.5000	-0.200	11.46	11.62	10.86
UK GILTS	10.000	11/96	102-22	+05/32	9.23	9.18	9.12
	8.750	08/97	103-17	+10/32	9.30	9.17	8.99
	9.000	10/08	99-22	+18/32	9.03	9.05	8.83
US TREASURY *	7.500	05/02	100-11	+07/32	7.15	7.18	7.44
	8.000	11/21	102-03	+09/32	7.80	7.80	7.90
ECU (French Govt)	8.500	03/02	98.8900	-0.210	8.86	8.86	8.62

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Brazilian telecom group gains OTC listing in US

By Bill Hinchberger in Sao Paulo

THE Brazilian government said yesterday it would allow the trading of American depositary receipts in Telebras, the state-owned telecommunications holding company, on the US over-the-counter market.

The move allows the company to take advantage of exemptions under US Securities and Exchange Commission rules and therefore avoid full US-style corporate disclosure. But it would not permit the company to launch an offering of shares on the US market.

The announcement reduced uncertainty caused by the cancellation this month of a planned $1.3bn ADR placement by Telebras. The official explanation was that a large issue might erode the share price, with a negative affect on privatisation plans.

However, the cancellation led to speculation about the privatisation of Telebras, and some expectation that the government might decide to sell its subsidiaries separately instead of disposing of the holding company in one move. Telebras shares have fallen 45 per cent this month, although they rebounded modestly in morning trading yesterday.

Telebras weighs heavily on the Sao Paulo Stock Exchange (Bovespa), representing about a third of the Bovespa index and generally accounting for half of daily trading.

The privatisation method was not discussed at the Wednesday meeting between government and Telebras officials that reached the decision on the ADRs, said Mr Roberto Wright, head of Telebras's division of capital market control.

Mr Wright said that the step into the secondary market "opens a precedent" and would make it easier to secure an exchange listing and an offering of shares in the future.

CBOT moves closer to UK recognition

By Tracy Corrigan

THE Chicago Board of Trade moved a step closer to recognition as an overseas investment exchange in the UK yesterday, when the Office of Fair Trading published its report on the CBOT's application.

The CBOT, one of the three partners behind Globex, the screen-based futures trading system launched yesterday, needs to be recognised before its products can be traded on the Globex system in the UK. Its futures and options on 10-year US Treasury notes can be traded on terminals in New York, Chicago and Paris, but not London.

The report by the OFT concludes that none of the rules of the CBOT poses significant competition issues in the futures and options market.

Under the Financial Services Act, the Treasury - which took over the role from the Department of Trade and Industry on June 7 - has to seek the advice from the OFT, prior to authorisation. The FSA also requires the Treasury to take account of investor protection issues.

EIB deal has parity with French state issues

By Tracy Corrigan

THE European Investment Bank yesterday became the first borrower to raise funds in the Euro-French franc bond market at the same level as the French government. The bank's FFr2bn five-year deal was priced to offer the same yield as the 8½ per cent French government OAT due 1997.

INTERNATIONAL BONDS

Dealers said the bank could have sold bonds at a yield below French government bonds. The FFr2bn issue launched by Crédit Commercial de France sold out rapidly, helped by strong demand in both France and Italy. By the end of the day, the spread had tightened to 8 basis points below the OAT issue.

Demand for EIB paper is typically stronger than for other names because the agency's bonds are tax-exempt in both Italy and Austria. Italian investors in particular are enthusiastic buyers of the name and took about a quarter of this deal.

But the pricing of the deal reflects extremely tight spreads of French franc Eurobonds generally. For an issue of 9¾ per cent bonds due 1997 by Société Nationale des Chemins de Fer Français, the French railway, is currently trading at a yield of 10 basis points below the comparable OAT.

Dealers said buying of the new EIB deal was fuelled by expectations of further tightening. A FFr3bn issue of 8¾ per cent bonds due 2002, launched by the EIB in January at 22 basis points above the 10-year OAT, has tightened to 22 basis points below the OAT.

At first sight, it appears illogical that investors are prepared to pay more for EIB or French agency paper than for bonds issued by the French government, the best credit in the French market.

Dealers say the anomaly is due in part to expectations of heavy supply in the French Treasury market, fuelled by last week's announcement of an exchange programme of old bonds for new OATs.

In addition, some investors prefer to hold Eurobonds, which are in bearer form, rather than book-entry government bonds.

In the dollar market, the Halifax Building Society launched the largest deal by a UK building society outside the sterling sector. The $300m three-year deal via UBS Phillips & Drew was considered rather aggressively priced, but met buying interest from both retail and institutional investors.

The deal benefited from renewed interest in the dollar sector among European investors, based partly on growing expectations that the dollar is set to firm.

In the Canadian dollar market, a C$200m deal for an arm of Deutsche Bank also met firm demand. The deal closed at 99.45, slightly above its reoffer price of 99.40.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Halifax B.S.(a)†	300	5.75	100.915	1995	1.375/1.175	UBS Phil.& Drew
AB Spintab(b)†	100	7.5	100.915	1997	1.875/1.675	JP Morgan Secs.
CANADIAN DOLLARS						
Deutsche Fin.Neth.(a)†	200	7.75	101.025	1998	1.875/1.625	Deut.Bk.Cap.Mkts
ECUs						
Morgan Stanley(c)‡	100	(c)	100	1995	(c)	Morgan Stanley Intl.
FRENCH FRANCS						
European Inv.Bk.(a)†	2bn	8.675	99.59	1997	25bp	CCF
GUILDERS						
NMB Postbank(a)†	400	8.625	100.85	2002	1/0.625	NMB Postbank Grp.

★Private placement. §Convertible. ¶With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Fungible with existing $300m deal launched 1.6.92. Non-callable. c) Issued under MTN programme. Coupon pays 0.625% over 3-month Libor. Fees undisclosed. Callable at par after 1 year and at 99.95 on any coupon date thereafter.

MAS agrees $170m loan to fund expansion

By Kieran Cooke in Kuala Lumpur

MALAYSIA Airlines System (MAS) has agreed a three-year $170m syndicated loan facility with 27 international banks to help finance its expansion programme.

The loan, arranged by the Overseas-Chinese Banking Corp (OCBC), Wardleys and Indosuez Asia, will be used to part finance the acquisition of more than 70 new aircraft.

This month MAS announced it would be making a one-for-one rights issue at the end of the year, designed to raise more than $700m.

MAS has rapidly expanded its fleet and route network in recent years, but has seen profits slide. In the year to March 31 1992, pre-tax profits fell to M$119.5m (US$47.6m) from M$305.5m the previous year.

This week the Malaysian government approved an MAS request for air fare rises of between 15 and 20 per cent on domestic routes. They have been frozen for the past 10 years.

Citibank censured after cancelled bonds appear

By Patrick Harverson in New York

US REGULATORS yesterday censured Citibank and ordered it to improve controls on the handling and destruction of cancelled bond certificates after some certificates the US banking group thought it had destroyed six years ago turned up recently.

Although most of the cancelled bonds were never exchanged for money, Wall Street broking house Smith Barney was deceived last November into paying out $6.2m on a transaction involving the certificates and a Liechtenstein bank.

Smith Barney has since filed a lawsuit against Citibank, and against the Liechtenstein bank, a financial clearing house and Dow Chemical, whose cancelled bonds it said it unknowingly bought.

Citibank says the suit is without merit. It claims that the certificates presented to Smith Barney had been perforated to declare them invalid, and were therefore clearly cancelled.

The controversy over the certificates dates back to 1986, when Citibank used an outside company to dispose of an unusually large volume of cancelled certificates that had been in storage.

Although Citibank was assured at the time that all of the certificates had been destroyed, some found their way to Europe, where last year they were fraudulently presented for transfer or offered as possible collateral for loans.

Citibank said that since 1987 its own personnel had destroyed cancelled certificates on bank premises. Citibank also said yesterday that it believed it had no "material financial exposure" to any of the certificates.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 25

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]					

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]					

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]					

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]					

FLOATING RATE NOTES	Spread	Bid	Offer	C.cpn
[illegible]				

CONVERTIBLE BONDS	Cnv. price	Bid	Offer	Prem.
[illegible]				

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	67	3	12
Other Fixed Interest	10	3	2
Commercial, Industrial	271	262	908
Financial & Property	156	113	526
Oil & Gas	13	26	49
Plantations	0	0	9
Mines	32	39	79
Others	25	55	51
Totals	574	501	1,636

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price £	+or-
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-
[illegible]							

LIFFE EQUITY OPTIONS

Option	Calls			Puts		
[illegible]						

TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS	p	Charter Cons.	37	Ladbroke	18	Sears	8½
Allied-Lyons	40	Comm Union	34	Legal & Gen	23	Smkl Bchm A	60
Amstrad	6	Courtaulds	43	Lex Service	22	TI	55
Asda (BSR)	3	Eurotunnel	9	Lloyds Bank	34	TSB	11½
BAT Inds	50	FKI	6	Lonrho	12	Tesco	22
BOC	45	FNFC	7	Lucas Inds	12½	Thorn EMI	60
BTR	35	Forte	19	Marks Spencer	27	T & N	11½
Barclays	25	Glaxo	90	Midland Bank	30	Unilever	75
Blue Circle	25	GKN	25	NatWest Bank	28	Vickers	11
Boots	34	Gen Accident	36	P & O Dfd	37	Wellcome	75
Brit Aerospace	25	GEC	17	Racal Elect	5½	■ PROPERTY	
British Steel	5	Grand Met	38	RHM	18	Brit Land	18
BT	25	GRE	13	Rank Org	55	Land Sec	36
Cadburys	33	Hanson	18	Ratners	3	MEPC	26
		ICI	80	Reed Intl	44	Mountleigh	1½

■ OILS	
Aviva Pet	25
BP	22
Burmah Castrol	48
Conroy Pet	8½
Gaelic Res	-
Premier Cons	2¼
Shell	48
Tuskar Res	6
■ MINES	
RTZ	46

TRADITIONAL OPTIONS

● First Dealings June 22
● Last Dealings July 3
● Last Declarations Sept. 17
● For settlement Sept. 28

3-month call rate indications are also shown on this page.

Calls in: ASDA, BT Part./Pd., Ficons, LASMO, Owners Abroad, Ratners and Rexmore. Puts in: Bodyshop, Dolphin Pack., FNFC, Union Discount.

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Financial Times Annual Report Service

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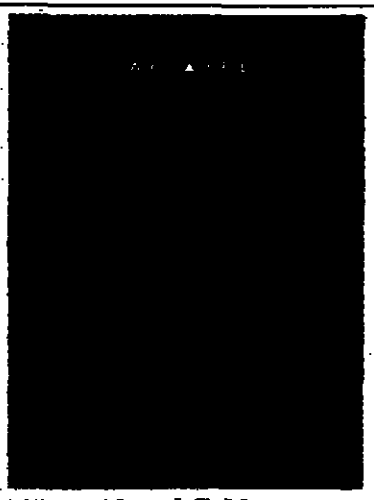

Alcatel Cable

Alcatel Cable, worldwide leader in the telecommunications and energy cables market, is located in 25 countries with 70% of its sales outside of France. Following its dynamic 1991 acquisition policy, Alcatel Cable employs 23,000 people worldwide.

Consolidated Figures (millions FRF)	1990*	1991
Total Sales	24,516	27,485
Net Income before Minority Interests	1,099	1,269
Net Income Group Share	926	1,107
Net Income Group Share per share	FRF 280	FRF 321
Dividend per Stock	FRF 80	FRF 90

**Excluding the effect of a change in the accounting method.*

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Forest Oil Corporation

is engaged in the acquisition of, exploration for, development and production of oil and natural gas. Forest Oil's strategy is focused on minimizing the risk inherent in the search for hydrocarbons by acquisition and exploitation of existing producing properties. The Company conducts a modest exploration program, which is funded principally through farmout mechanisms. The Company's principal reserves and producing properties are located offshore Louisiana, and in Texas, Wyoming, Oklahoma and Alberta, Canada. Forest Oil owns working interests in approximately 82,000 leasehold acres and 238,000 net undeveloped acres both on- and offshore in the United States and in Canada. (NASDAQ: FOIL)

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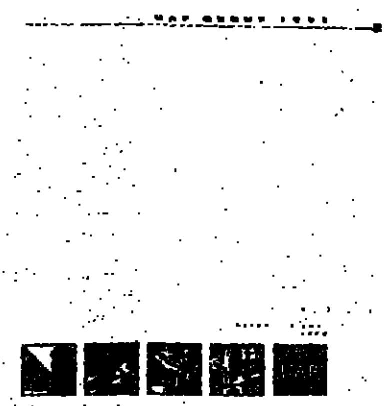

UAP

In common with other insurance firms in 1991, the UAP Group was affected by deteriorating conditions in non-life insurance and adverse conditions in the financial and property markets. In addition Group net profit for 1991 fell by 10.7% partly due to the allocation of provisions equivalent to 5% of Banque Worms property risks and partly due to UAP's contribution to the indemnity fund for victims of AIDS contaminated blood transfusion.
The UAP Group has met these challenges with active management and continues to renew its product range, decentralise responsibility and consolidate its position of strength in Europe.

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ELF Aquitaine

ELF Aquitaine is France's premier industrial group in terms of sales and net income. Elf Aquitaine ranks first on the Paris Stock Exchange in terms of capitalisation. The Company is also listed on the NYSE since 1991. The Group is one of the ten largest oil companies worldwide. It is also very active in chemicals and has carved out a solid position in the health sector.

1991	Sales	FF 200.7 billion
1991	Net income	FF 9.8 billion

The above figures are extracted from the Annual Report.

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Cyprus Minerals Company

Cyprus Minerals Company, with $2 billion in assets, is a major U.S. producer of copper, coal, molybdenum, lithium, and talc. It also produces gold, iron ore, and zinc. The strong balance sheet is characterized by debt of only 15 percent. Shareholders have received an 18.6 percent compounded return on their Cyprus Investment during the last five years.

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Chargeurs

Chargeurs is a diversified industrial group which operates in textiles (Prouvost, Hart, Otegui...) and entertainment (BSkyB,Pathé...). It also operates in automobile transportation (Walon), leisure cruises (Paquet) and protective surfacing (Novacel). The group is one of France's leading international companies, with over 12,000 employees worldwide.

Financial Highlights 1991 (FF millions)	
Net sales	10,267
Net income	366
Capital expenditure	782
Net equity per outstanding share (FF)	1,036.95

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Pearson

PEARSON publishes newspapers, magazines and books, owns and runs day-time family entertainment attractions, provides oil services around the world, has substantial investment banking interests and is the largest manufacturer and distributor of fine bone china. PEARSON owns most of its businesses outright, but also makes investments in complementary businesses. PEARSON concentrates on business sectors where its own emphasis on quality is a competitive advantage, where it can market its products internationally, and where it can attract and motivate talented people. FINANCIAL TIMES •ROYAL DOULTON•LAKESIDE•ADDISON-WESLEY•LAZARD•PENGUIN•CAMCO•LONGMAN•WESTMINSTER PRESS•TUSSAUDS GROUP.

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Teva Pharmaceutical Industries Ltd.

Teva Pharmaceutical Industries Ltd. is Israel's largest pharmaceutical Company and among Israel's ten largest industrial companies. Teva manufactures and distributes ethical and generic drugs, fine chemicals for the pharmaceutical industry, hospital supplies, and veterinary products. Manufacturing facilities are located in Israel, Western Europe and the United States. Almost 50 percent of Teva's sales are generated outside of Israel, most of it in the U.S. Teva's shares are traded in Israel and on NASDAQ (symbol: TEVIY), with the majority held by non-Israelis.

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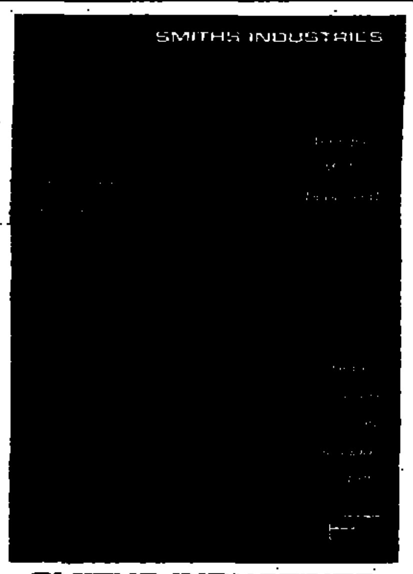

SMITHS INDUSTRIES

Smiths Industries is a world leader in aerospace electronics, medical systems and specialised industrial products. With a commitment to research and development, investment in advanced manufacturing and clearly focused marketing, the company has maintained a strong record of progress through organic growth and acquisition. More than 70 percent of the company's business is generated outside the United Kingdom, with the United States as its single largest market.

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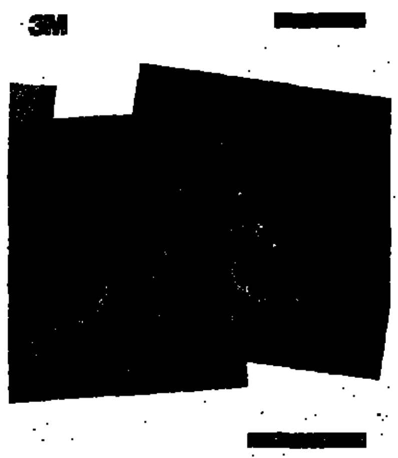

3M

3M is a global leader in industrial, commercial, healthcare and consumer markets. Strengths include a steady stream of new products, low-cost manufacturing, a strong presence outside the United States, and an AAA credit rating. In 1991, more than 30 percent of sales again came from products new within the last five years. During the year, 3M celebrated its 40th year of successful international operations. 3M has companies in 57 countries and markets its products in more than 200 countries.

75

Schlumberger

Schlumberger is an international company which provides technical services and products to enhance customer efficiency in two main areas: *Oilfield Services* comprises the complete range of techniques for locating, evaluating and extracting oil and gas reserves. *Measurement & Systems* designs, manufactures and distributes products, systems and services to help customers manage energy resources and shorten design and production cycles. In 100 countries, 54,000 employees of 90 nationalities form a unique blend.

($millions)	1991	1990	1989
Operating revenue	6,145	5,306	4,685
Net income	815	570	441

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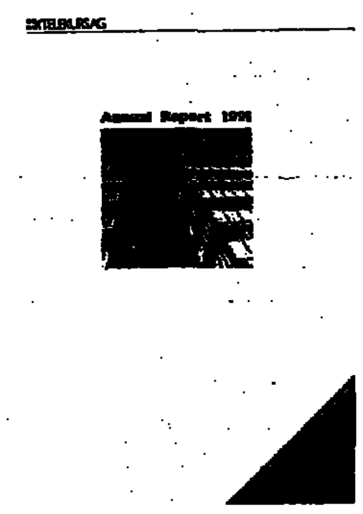

Telekurs

TELEKURS, based in Zurich, Switzerland, and with subsidiaries in all major financial centers of the world, offers a broad and varied spectrum of services for financial information distribution at the leading edge of technology. TELEKURS has at its disposal the world's most comprehensive securities database. With its services there is almost instant access to all relevant financial data from anywhere in the world. TELEKURS expanded its business in 1991; turnover rose to Sfr 355 million, the cash flow increased to Sfr 63.8 million.

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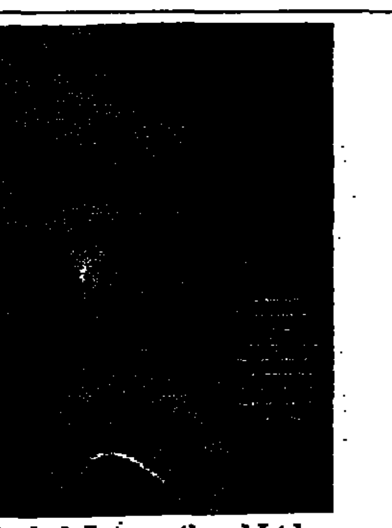

Reebok International Ltd.

Reebok International Ltd., headquartered in Stoughton, MA, is a leading designer and marketer of active lifestyle and performance products, including footwear and apparel. The Company's operating units include the AVIA, Boston Whaler, Reebok and Rockport Divisions and the Apparel Products Group (including Ellesse USA and Weebok). Sales for 1991 totalled approximately $2.7 billion. Stock Exchange: NYSE (symbol: RBK).

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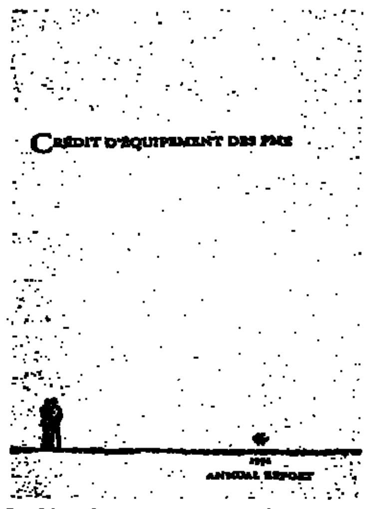

Crédit d'équipement des PME

The CEPME group finances the development of small and medium sized businesses through a complete range of products: medium and long term loans, property and equipment leasing, equity investment, short term overdraft lending and corporate finance advice. With around 300 account managers split between the fifteen regional centres and forty one offices the CEPME is present throughout France. Over 120,000 businesses currently benefit from financing provided by the CEPME. The CEPME has seen continued progress in 1992, with a 54 percent growth in net profits and in excess of 20 billion of loans advanced.

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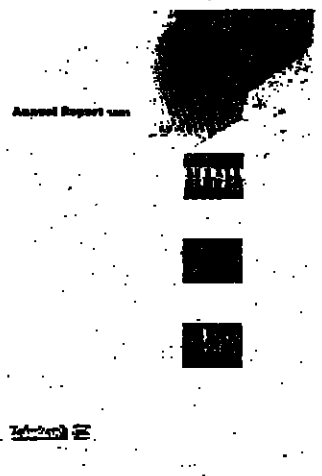

Rabobank

The only Dutch triple-A bank.
The Rabobank Group – AAA-rated by all leading rating agencies – is the largest source of finance for the Dutch economy. With total assets of over US$ 127 billion it ranks among the 50 largest banks in the world. Rabobank is leading in Dutch agriculture and agribusiness (90%), the small and medium-sized corporate sectors (40%) and retail banking (30% to 40%). Internationally it runs more than 45 offices in the USA, Latin America, Asia, Australia and Europe. In Europe, Rabobank can offer its clients 29 own footholds in 10 countries and a network of 15,000 outlets of its strategic alliance partners. Globally Rabobank specializes in food and agribusiness and agri-trade finance.

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OGF

The core activity of OGF, a member of the Lyonnaise des Eaux-Dumez group, is the provision of funeral services to local authorities and private individuals. Its main subsidiary is PFG (Pompes Funèbres Générales). From its original bases in France, OGF/PFG has developed internationally. First in Europe: Belgium, Switzerland, Italy and Great Britain. In this last country, the Group is the major shareholder of Plantsbrook Group (ex-PHKI). OGF/PFG holds 9% of the European funeral service market. Secondly, in the Far East (Singapore) and in Africa. Key results for 1991: Net Sales 2,797.9MF Consolidated net income 115.5MF

The Financial Times Annual Report Service is appearing on 23, 24, 25, 26 June 1992.

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77 ☐ Reebok International
78 ☐ CEPME
79 ☐ Rabobank
80 ☐ OGF

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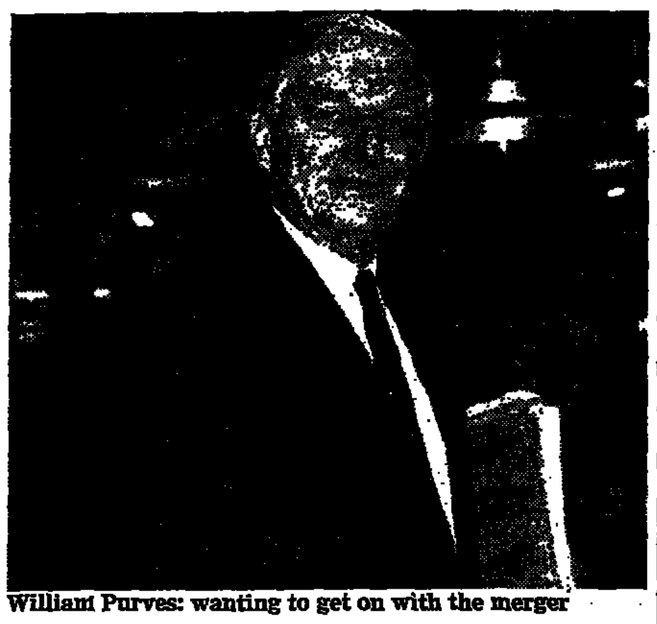
Hongkong Bank wins 64% of Midland

By David Barchard in London and Simon Holberton in Hong Kong



William Purves: wanting to get on with the merger

HONGKONG and Shanghai Banking Corporation yesterday won overwhelming acceptance from Midland Bank shareholders for its £3.6bn takeover offer, giving it a total of 63.58 per cent of the British clearer's share capital.

Counting was still proceeding last night and the final level of acceptance will be announced this morning. The merger will be declared unconditional in every respect on July 10.

The prospect of a significant block of Midland shares lying outside Hongkong Bank's control seems to have been excluded. Mr Derek Netherton, director of Schroders, the merchant bank advising Hongkong Bank, said that he knew of no institutional shareholder which had rejected the offer.

The merger creates a new global banking group with assets of £145bn, among the world's ten largest banks and well ahead of any other British bank.

Within an hour of the victory announcement Mr William Purves, Hongkong Bank chairman, told the Financial Times that he intended to proceed with the merging of the two banks' operations as rapidly as possible. "People in Midland and my group want to get on with it."

Top managers at the two banks are to meet in 10 days' time at a venue outside London to take key decisions on the practical steps involved in the merger.

Mr Purves said that he expected the bulk of the merger to be accomplished with a year, much of it in the first six months.

He cited the consolidation of the treasury operations of the two banks as an urgent priority. Operations in London, New York and Tokyo had to be brought together "as soon as possible".

London would be the headquarters of the new, enlarged treasury which would also take responsibility for handling the group's top corporate customers, he said. The treasury would trade under the Midland name but be headed by Mr Bernard Asher, Hongkong Bank's most senior executive in London.

Mr Purves said however that the merger would be "a partnership of key people in key areas". These people would come from both banks.

"There are many challenges ahead and we will get down to them now that the uncertainty has been removed."

Preliminary figures last night showed that Midland shareholders owning some 351.3m shares, or 44.5 per cent, had accepted the offer, with half of them electing to take the 60p cash alternative instead of the bonds.

Midland shares rose 24p to finish at 454p last night.

● The steering committee of the FT-SE 100 index is considering when exactly to replace Midland in the index with Hongkong Bank's shares. It is believed the change will not be made for about two weeks.

BPB halved to £37.8m but bullish on prospects

By Richard Gourlay

PLASTERBOARD manufacturers can look forward to a sustained recovery after three disastrous years in which prices fell by more than 50 per cent in real terms, BPB Industries, Europe's largest producer said yesterday.

The company was announcing a 51 per cent fall in profits due to the severe recession in the UK and Canada and the low plasterboard prices.

Pre-tax profits fell from £77.8m to £37.8m on sales down 10 per cent at £1.02bn. Earnings halved to 6p but the company is recommending an increased final dividend of 7.25p, up from 7p, giving an unchanged total of 11.25p.

Mr John Maxwell, finance director and chief executive designate, said the growing evidence of price recovery justified the dividend increase.

"Competition has focused on market development, product range, product quality and customer service instead of even higher discounts to gain sales," Mr Maxwell said of the European Gypsum market.

Operating profitability during the year had benefited from cost savings in the gypsum and the paper divisions.

The savings are likely to improve BPB's competitive position against its main European rivals, Knauf and Lafarge Coppée.

Plaster and plasterboard sales volumes increased in mainland Europe, especially in Germany, but the loss of sales in the UK and Canada more than offset these increases.

Included in the 50 per cent profit fall was a net £7.6m exceptional charge relating to £7.1m of redundancy costs and £4.1m additional depreciation provided on surplus plant which was only partly offset by a £3.6m profit on the sale of shareholdings.

In the previous year, BPB benefited from a £10.2m net exceptional gain after receiving insurance proceeds in excess of net book value which offset redundancy costs of £12.8m.

See Lex

Profits surge at Southern Electric and South Wales Electricity

First price cut wins approval

By Juliet Sychrava

SOUTH WALES Electricity will drop electricity prices by up to 2 per cent from January, after cutting more than 450 jobs – around 15 per cent of its present workforce – and reducing costs by about £4m.

The announcement, which makes the Cardiff-based regional electricity company the first to cut electricity prices since privatisation two years ago, won approval from the Department of Trade and Industry.

"I believe these reductions demonstrate that the benefits of privatisation are coming through," said Mr Tim Eggar, the energy minister.

The cuts, which mean about £1.50 to £2 off the average £80 to £90 quarterly electricity bill, were possible because South Wales had cut costs by 6 per cent, the company said at its annual meeting yesterday. That was the highest cut so far from any regional company.

South Wales, which is the smallest of the 12 regional companies, did not rule out another tariff cut in future.

Southern Electric, which also announced its annual results yesterday, faced questions from the City as to why it had not rewarded customers with a similar move.

The contrast was sharp, because Southern only cut 3.7 per cent or £8.5m from its costs, but gave shareholders a dividend of 16.66p, up 15.3 per cent, compared with South Wales' 14.8 per cent increase to 19.4p.

Southern Electric's pre-tax profit of £166.3m for the year ending March 1992, up 57 per cent on last year's pro forma figure, also looked high compared with the 28 per cent increase in South Wales' figure, to £72.5m.

Southern's earnings per share rose by 51 per cent to 47.8p and South Wales' by 26 per cent to 50.3p.

But the companies' underlying profit growth – excluding exceptional items and distortions – was closer. Southern Electric's profit grew by an underlying 30 per cent, and South Wales' by 23 per cent. This came almost entirely from the core distribution business, although sales were depressed. Southern Electric sold a modest 2.2 per cent more electricity, and sales in South Wales were stagnant.

Growth came from cost cutting, and higher tariffs, which gave South Wales a £70.4m operating profit in the core business, compared with £47.5m the previous year.

Southern Electric's core business made an operating profit of £172.5m, a rise of 34 per cent.

Both companies incurred exceptional charges as they restructured their retail operations and shed jobs in the main business – £11.2m for South Wales and £8.5m for Southern Electric.

However, while Southern merged its retail operations with Eastern's in April 1992, South Wales sold its business to South Western Electricity, shedding 355 jobs.

Southern's retail business showed a £3.3m loss, and is not expected to break even until the year ending March 1994.

Contracting was loss-making for both companies. Southern lost £2.6m on the business, and South Wales about £1m.

Both companies plan to take more costs out of the core business, though Southern gave a firmer target of 500 more jobs to go or 6.3 per cent of the workforce next year.

However, South Wales is targeting a 1 per cent cut in costs overall, while South Wales is forecasting a dramatic 5 per cent real cut.

Turnover for the smaller South Wales Electricity amounted to £590m (567m) while Southern Electric achieved £1.75bn (£1.55bn).

● COMMENT

Whether or not the halo South Wales was strategically wearing yesterday slips in future scarcely matters. The company's price cut will please the City even if it is a temporary sop to the regulator, and the company's cost cutting was tangible enough. And while Southern's promise of "critical mass" from its retail merger made South Wales' decision to ditch the whole lossmaking outfit look happily straightforward and likely to keep Welsh Water from making more predatory moves on the company. Southern – with its seven new businesses and new retail venture – inevitably looks somewhat uncertain by comparison even though the company has a strong management record. That uncertainty casts a shadow over the company's hefty dividend rise, which the company implied would be a one-off. Analysts forecast pre-tax profit of between £170m and £200m for Southern Electric, and £85m to £95m for South Wales. That puts the companies on a prospective p/e of 6.5 to 7.7 for Southern, and 6.6 to 8.3 for South Wales. A dividend of between 18p and 18.7p is forecast for Southern, and 21.2p to 21.8p for South Wales.

Caledonia Invs declines to £34.7m

By Roland Rudd

CALEDONIA Investments, in which the Cayzer family holds 46.2 per cent of the shares, saw pre-tax profits decline to £34.7m (£35.3m) for the year to March 31.

Mr Peter Buckley, chief executive, said the company was affected by falling interest rates as it switched from British & Commonwealth Holdings preference shares and cash deposits to other investments.

Profits from trading activities rose to £6.9m (£1m), due to higher input from Amber Industrial Holdings, in which Caledonia holds 75 per cent.

However, this increase was offset by a fall in investment income to £18.6m (£23.2m) and net interest receivable from £13.9m to £12.2m.

Caledonia is proposing to purchase up to 10 per cent of its share capital at 355p a share – a small premium to Wednesday's closing price. The shares yesterday rose by 23p to 362p.

Earnings per share fell from 25p to 24.1p.

An increased final dividend of 9.6p, takes the total for the year to 14.4p (13.5p).

COMPANY NEWS: UK

Price increases behind rise at Yorkshire Water

By Angus Foster

YORKSHIRE Water yesterday announced an 8.6 per cent rise in profits and said its non-regulated, or enterprise, business performed well.

Pre-tax profits advanced from £114.1m to £123.9m in the year to March 31, in line with expectations. The rise was mainly due to average price rises of 13 per cent, although increased borrowings for capital expenditure led to an interest charge for the first time.

Turnover was up 13.4 per cent to £441.2m. This follows a 13.7 per cent increase to £219.5m at the interim stage, when profits were 11.7 per cent higher at £64.1m.

Turnover in the core water and sewerage business increased by 12 per cent to £428.2m. Enterprise businesses, which include the environmental and property arms, doubled sales to £13m and generated profits after financing costs of £2m.

Operating expenses increased 11.8 per cent and included a larger-than-expected £5.5m provision for a land slip at a sewage treatment works near Huddersfield.

There were also £4m of reorganisation provisions, £2m for additional water pumping to areas of low supply and £300,000 of compensation for customers affected by a potential cryptosporidiosis outbreak in Sheffield.

Capital expenditure in the regulated business increased 16 per cent to £290m. Depreciation rose 4.4 per cent to £44.4m while infrastructure renewals were up 8.3 per cent to £66.5m.

Earnings improved by 10.3 per cent to 57.6p (52.2p). A final dividend of 13p (11.8p) makes a total of 19.5p (17.7p), a 10.2 per cent increase.

● **COMMENT**

Who said water companies are risk free? Despite the predictability of profit and price increases, Yorkshire's results show how a land slip and other problems can dent profits, even if the numbers are relatively small. Although core business results were as expected, there were encouraging signs from the non-core side. This year should be even better, benefiting from perhaps £1m of property profits for the first time, although unregulated profits are still some way from 10 per cent of the total. Forecast profits for this year of £141m put the shares on a multiple of 7 times, following yesterday's 7p rise to 462p. Given the company's regulator-friendly image, the shares could go higher as dust from the water companies' reporting season begins to settle.

Wellcome chief emphasises strengths in £3bn shares sale

By Maggie Urry

MR JOHN Robb, chief executive of Wellcome, said yesterday he would emphasise five of the drug group's strengths to potential buyers of the £3bn worth of shares that the Wellcome Trust is planning to sell.

These strengths included the group's dominance of the growing anti-viral drug market; its promising research and development pipeline and its emphasis on sales and marketing. He also pointed to Wellcome's strong volume growth in sales, limiting the effect of pricing pressures on drugs; and the group's ability to increase margins.

UK investors are expected to take half the shares in the international offer next month. Of this, retail investors are expected to take £180m of shares, although Mr Lawrence Banks, head of corporate finance at Robert Fleming, the bank organising the sale, said yesterday that retail demand was hard to estimate. So far more than 250,000 people had rung the Wellcome share information office.

Wellcome has about 23,000 individuals on its shareholder register, of which 10,000 are employees.

More than 80 regional stockbrokers are prepared to apply on behalf of private investors, who can also participate via application forms. Existing Wellcome shareholders with addresses in the UK will receive a special application form giving them priority for up to £5,000 worth of shares.

Retail investors have to offer to buy shares at the tender price being fixed through the international book-building process. However, the tender price will not be announced until a few days after the public offer closes. Applicants must specify the value of shares they wish to buy, rather than the number. Applications must be for a minimum of £1,000.

The maximum number of shares that could be sold is 417m. The sale of 330m shares would reduce the trust's stake from 73.5 per cent to 35.1 per cent. The trust can increase the issue and Fleming has the option to sell a further 15 per cent of the final size. If the maximum number of 417m were sold, the trust would be left with a 25 per cent stake, which it says it would retain as a long term investment.

The trust will be paying total commissions of between 3½ and 3¾ per cent of the value of the shares sold.

Liberty's fraternity seeks to limit equality

Peter Pearse reports on the challenge to the existing order at the famous retailer

TODAY'S extraordinary meeting at Liberty will, at one level, be devoted to the vexed questions of equality and fraternity.

There is little equality in Liberty's share structure, though it looks as if the fraternity uniting the many stakes held by the descendants of the founder and his wife will remain solid enough to see off the issue. At least this time.

In October Mr Brian Myerson, through Concerto Capital Corporation, his family investment vehicle, bought the bulk of his 15 per cent stake in the retailing and wholesaling group. He proposed exploiting the Liberty name more fully and generally invigorating the group.

The board referred him to the Stewart-Liberty family, the shareholder group he would need as a partner to implement his changes. Rebuffed by the family, he proposed a £20m rights issue and the appointment of a new chief executive in place of Mr Harry Weblin, who is also chairman.

Those plans have since been changed and the agenda before Mr Myerson's requisitioned meeting is his scheme to enfranchise the non-voting shares, "no more, no less". Of Liberty's shares 70 per cent are voting and the balance non-voting.

Mr Myerson says that the institutions he has seen agree with enfranchisement as a principle and that the exercise has forced Liberty to renew dormant contact with its non-family investors. "The institutions accept that our calculations are fair," he says, adding that there has been "an element of understanding and some sympathy among certain Stewart-Liberty members".

Liberty says that Mr Myerson's scheme is fundamentally flawed and would disadvantage the holders of the non-voting stock. It adds that it is not essentially opposed to enfranchisement, but wants to be able to choose the time and the formula.

Mr Myerson says enfranchisement would lead to more non-executive directors. Mr Anthony Blackmore, the only one at present, was elected 22 years ago and is part of the Stewart-Liberty family.

"They need help round the boardroom table, there isn't the depth there," says Mr Myerson. The board dismisses the non-executive question as irrelevant and says it is always on the look-out for non-executives who can make a contribution.

Mr Weblin says that customers have given him "quite a towsing" over Mr Myerson's proposals and both he and Mr John Pugh, Liberty finance director, are confident that they will be voted down. "The proxies are looking OK," Mr Pugh said last night.

The meeting will be the latest shareholder skirmish in a 10-month saga, which has thrown the perceived reputations of the protagonists into sharp relief.

On one side there is the hidebound and cosy Englishness of the 117-year-old upmarket fashion retailing name, which "is muddling along". Based in its Tudor-style and neo-classical West End store, it is an "under-performing" company that is long on tradition, but shorter on business acumen and drive.

On the other, there is the barbarian at the gates, Mr Myerson, the arrogant young colonial interloper with a beady eye for the main chance, looking to put another respected UK institution into play, as he had with Aquascutum.

Neither reputation is wholly true.

It is true that Liberty has recently been hit hard by the recession, the Gulf war, the VAT increase and the impact of the Uniform Business Rate. In the year to February 1, the group suffered a 21 per cent decline in pre-tax profits to £5.66m, with the retailing side tumbling 62 per cent to £822,000.

Three stores were closed in the US when the leases expired, leaving one, that is only accessible through another shop, and the company no longer has a European retailing presence since the disposal of the Dutch Metz & Co venture in 1989 and the short-lived idea for a store in Lyon. Mr Myerson maintains that for a company with a brand as unique and valuable as Liberty, it has negligible awareness among consumers internationally.

The board suggests that closing the loss-making US stores was a sign of good, not poor, management and that licensing is, at the moment, the best way to progress across the Atlantic.

It points to the lack of success of virtually all cross-border expansion in retailing, both into and out of the UK. It plans organic growth in the UK, opening more shops, creating more space in the Regent Street flagship store and pushing the Muji joint venture hard.

It is also true that a ball Mr Myerson started rolling forced the Aquascutum board into the arms of a Japanese white knight and that he did emerge about £6m richer.

He acknowledges he is not a retailer, rather an investor, though he says he has been immersed in the sector for four years now. He stresses the need to have stores overseas to carry the brand, thereby reinforcing the wholesaling side. "Otherwise Liberty will dwindle into a small property and wholesaling business."

He would open 10 stores in Europe over five years.

Mr Myerson insists that the meeting is "only round one", that he is "not in a hurry and has inevitability on his side". The Liberty board wants to get back to running the business and the Stewart-Liberty family will reveal its wishes today.

Ashley Ashwood

Liberty's West End store: disputed plans for expansion

Doubled sales in Poland help Rothmans advance by 4.2%

By Richard Gourlay

ROTHMANS International, the cigarette and luxury goods company, yesterday reported a 4.2 per cent increase in profits despite a price cutting war in Australia, one of its most important markets.

The main boost to growth came from a doubling of sales in Poland coupled with higher prices in Canada and cost cutting in Germany.

Pre-tax profits rose from £542.5m to £565.2m on sales of £2.4bn (£2.3bn). Earnings per share rose 9.2 per cent to 85.7p and the company is to pay a final dividend of 13p, up 11.1 per cent, giving a total of 20.5p, up 10.8 per cent on the year.

The company is also splitting its ordinary "B" shares, which are traded in London, into two in an attempt to widen their appeal to investors.

The Australian operation was badly hit by the price war and the operating result was struck after a higher-than-expected £28.7m rationalisation cost in Europe and Australia.

Cash balances increased by £56m to £770m but investment income fell from £65.4m to £58.5m as a result of lower average interest rates.

The luxury goods interests, which are mainly a controlling interest in Dunhill holdings, were hit by recession. But sales increased by 11 per cent to £230m largely due to the purchase of substantial interests in Alfred Dunhill's Japanese distributor. Operating profits rose from £55.1m to £55.7m.

During the year the tax rate fell from 36.8 per cent to 35.2 per cent.

● **COMMENT**

A good week for cigarette makers. Fast in the tracks of Wednesday's US Supreme Court judgment on smokers' lawsuits, that appears to limit their avenues of attack, Rothmans yesterday demonstrated the industry's old cash generating magic. Allowing for a price war in Australia and reorganisation costs, which were higher than expected, cigarettes showed a 10 per cent increase. Luxury goods through Cartier and Dunhill particularly, were also ahead of expectations. Rothmans is, however, sitting on a £770m cash mountain that it still does not appear to know how to use, even though some of this pile is controlled by associates. Perhaps there is a case for a higher dividend, but this argument has cut little ice with the South African Rupert family since it took control by buying Philip Morris's stake in 1989. With the legal threats in abeyance, if not entirely despatched, the shares are looking on the cheap side based on a forecast of £605m of profits this year, or earnings of 94p, which gives a prospective multiple below 11.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
BPB Inds	fin	7.25†	Aug 21	7.25	11.25	11.25
Brown Shipley	fin	nil	-	5	nil	8
Brown & Tawse	fin	1.65	Aug 25	2.65	4.7	5.7
Caledonia Inv	fin	9.6	Aug 12	9	14.4	13.5
Chiltern Radio	int	nil	-	1	-	2
Electra Inv	int	3.3	Aug 11	3.2	-	6.4
Hardys & Hanson	int	2.8	Aug 10	2.68	-	7.5φ‡‡
Kalamazoo	fin	0.875‡	Sept 9	1.5	1.4	2
Prospect Inds	int	0.25†	Sept 3	0.1	-	0.4
Rothmans	fin	13	-	11.7	20.5	18.5
Scantronic	fin	2.185	Aug 28	2.185	2.975	2.975
Soundtracs §	int	0.85	-	0.85	-	2.2
South Wales Elec	fin	13.6	Oct 5	11.8	19.4	11.8
Southern Elec	fin	11.78	Oct 5	10.12	16.66	10.12
Stoddard Sekers	fin	1.875	July 29	1.95	2.625	2.5
TSB	int	3.15	Oct 5	3.15	-	8.4
Yorkshire Water	fin	13	Oct 1	11.8	19.5	17.7

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡ For 6 months. ‡‡Adjusted for subdivision of shares.

NEWS DIGEST

Aberdeen Steak cuts losses

ABERDEEN Steak Houses Group, the restaurants operator, reported reduced pre-tax losses of £422,000 in the 1991 year, compared with £3.27m. However the trading profit on continuing activities fell from £2.37m to £934,000.

Mr A Salih, chairman, said that against the background of the recession, the second-half had increased business, but not enough to make up for the heavy losses at the beginning of the year.

Sales for continuing activities were currently ahead of last year.

Total turnover fell 17 per cent to £13.3m (£16m). The figure of £14m (£12.2m) for continuing activities was 12 per cent down.

Losses per share were 2.6p (23.5p).

Stoddard Sekers advances 30%

Stoddard Sekers achieved a 30 per cent profits increase in what the company termed "a most testing period."

On sales up 7 per cent at £46.1m (£48m) the pre-tax figure advanced from £2.51m to £3.26m in the year to March 31.

The company makes Wilton and Axminster carpets and fabrics. Mr Hugh Laughland, the chairman, said the widely-predicted rise in consumer confidence had failed to materialise. Demand remained low and the current year had started disappointingly.

The final dividend of 1.875p (1.95p) makes an increased total of 2.625p (2.5p) payable from earnings per share of 3.8p (2.8p).

The year ended with shareholders' funds at £19.4m (£18.5m) borrowings of £330,000 (£590,000) and gearing at 1.7 per cent.

Electra Inv asset value declines

Net asset value per share at Electra Investment Trust declined to 285.84p at the end of the six months to March 31, against 304.53p at September 30 1991.

Net assets of £469m (£502m) included interests in Electra Kingsway valued at £10m.

The trust adopted a cautious stance and made few investments during the first half. It has however raised the interim dividend to 3.3p (3.2p). Attributable profit increased to £6.46m (£6.18m).

Soundtracs falls to £175,000

Soundtracs, the USM-quoted professional audio equipment specialist, announced a £20,000 drop in pre-tax profits to £175,000 in the six months to April 30.

Turnover advanced to £1.72m (£1.57m) but the company said that the continuing recession and depressed sales in Japan and the US resulted in even more competitive prices.

The interim dividend is being held at 0.85p, payable from earnings of 1.17p (1.29p) per share.

Kenwood offering 1.2 oversubscribed

The public offering of shares in Kenwood, the kitchen appliances company which will begin trading on the market next week, was 1.2 subscribed when it closed on Wednesday.

Applications up to 1,000 shares will be satisfied in full, as will applications from employees.

Applicants who asked for more than 1,000 shares, however, will be scaled down to about 78.4 per cent of the amount they requested.

Feedback tumbles £0.37m into the red

Feedback, the USM-quoted designer and maker of computer peripheral, technical education and electronic test equipment, fell £366,200 into the red in the year to March 31, against profits of £57,500 previously.

Directors said that this first-ever loss reflected trading conditions and was in part due to the low turnover at Feedback Inc and the costs of integrating source computer systems into Feedback Data.

There had been considerable reorganisation and rationalisation throughout the group.

On turnover down at £9.13m (£9.61m) there was an operating loss of £275,100 (£328,600 profit). Losses per share emerged at 3.37p (0.17p earnings) and there is no dividend.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Bett Bros, Brunner Investment Trust, Cranbrook Electronic.

Finals- Amberley Group, Associated Energy, Bula Resources, Southern Water, Syltone, Tex Holdings, United Industries, Vistec.

FUTURE DATES

Interims-	
Barcom	June 30
Clyde Blowers	July 3
Fyffes	June 30
M & G Dual Trust	July 8
Sedgwick Group	Aug. 18
Finals-	
Adam & Harvey	June 28
Anglo United	June 30
Avesco	June 29
Colorvision	July 29
Danae Investment Trust	July 1

COMPANY NEWS: UK

Halifax in search for new chief executive

By David Barchard

HALIFAX, the largest UK building society with assets of £58bn, has approached a firm of headhunters to help it select its next chief executive.

Mr Jim Birrell, the present chief executive, retires in August next year on his sixtieth birthday. Though an internal candidate has not been ruled out to succeed him, it is understood that Mr Jon Foulds, the Halifax chairman, believes that an outsider is needed to overhaul the society to face the challenges of the banking markets in the late 1990s.

The two strongest internal candidates are Mr David Gilchrist, the group general manager, and Mr Mike Whitehouse, the operations director who is in charge of the day to day running of the building society's core business.

Mr Foulds is believed to be planning a much more radical shake-up of the society and the upper echelons of its management.

He is thought to favour a banker or an industrialist as the next head of the society.

His moves have revived speculation that Halifax may be reviewing a board decision in June 1988 to remain mutually owned and not to follow Abbey National with a stock market flotation.

At the time, most of Halifax's senior management were believed to favour the flotation, but were overruled when a majority of the directors voted against it.

See Observer

Kalamazoo held back to £0.6m for eight months

By Paul Cheeseright, Midlands Correspondent

DISPOSAL of loss-making subsidiaries and over-capacity in the printing sector held back the profits of Kalamazoo, the computer services and printed systems group.

Pre-tax surplus for the eight months ended March were £611,000 against £3.66m in its last full financial year, to July 1991, or £2.3m for the eight months to March 1991.

Kalamazoo is changing its financial year end to March. It last reported in March on the six months to last January and the updating of the accounts by two months reflects little difference in its trading position.

The computer services business, which accounts for 66 per cent of group business, continued to grow with a seven per cent increase in revenue from one 8-month period to the next.

But the printed systems business saw most of its profits wiped out by the recession, manifest in the over-capacity of the printing industry and a decline in repeat orders.

The sale of US and New Zealand subsidiaries took £1.2m out of operating profits.

"The group has negligible gearing and although there will be restructuring costs as we reposition our printed systems business, we are confident of profit growth in the coming year," said Mr Peter Harrop, the chairman.

Earnings per share for the eight months to last March were nil.

The final dividend is 0.875p a share, making a total for the eight months of 1.4p. Payments for 1990/1991 were 2p.

Difficult trading keeps Brown & Tawse loss little changed at £1m

By Angus Foster

BROWN & Tawse, the steel and pipes distributor, yesterday announced a second successive year of losses and cut dividends.

The company reported pre-tax losses of £975,000 in the year to March 31, a slight improvement from losses of £1.17m a year ago.

But operating profits fell from £4.13m to £1.36m and Mr Gil Black, chairman, said trading remains difficult.

The proposed final dividend is being cut to 1.85p (2.55p) to make a total of 4.7p (5.7p). The shares fell 5p to 61p.

Turnover fell to £139.4m (£166.1m) as the company's main construction and industrial markets were affected by recession.

This followed a decline at the interim stage when turnover fell to £72.3m (£90.8m) and a loss of £181,000 was announced (£2.17m profit).

Losses from bad debts increased to £1.2m (£730,000). There were exceptional losses of £164,000 from rationalisations, net of a £614,000 exceptional gain on a pension cost adjustments.

Brown & Tawse Plant, a distributor of rock breakers, is being closed, leading to exceptional provisions of £425,000.

The company further reduced employees from 1,433 to 1,295. Stocks fell by £6m to £22.5m while net borrowings fell to £16.1m (£19.5m), taking gearing down to 35 per cent (42 per cent).

Mr Black announced the appointment of Richard Wilson as chief executive, following the resignation of Mr Keith Rae last year. Mr Wilson, chairman, GKN Building Services Division, joins Brown & Tawse in October.

The loss per share deteriorated to 2.7p (0.7p). There was a retained loss of £2.39m (£2.08m).

● COMMENT

Mr Wilson's departure from GKN to join Brown & Tawse would appear brave. He is joining a company which despite two years of thorough cost cutting has failed to make a profit after interest costs since 1990. Although many of the woes can be blamed on recession, the company's heavy exposure to construction suggests recovery is far from imminent.

With most of the obvious costs taken out, Mr Wilson will presumably be looking a little deeper, perhaps to find a cheaper way to run the company's distribution network and reduce operating costs.

Forecasts for this year suggest another small loss or perhaps break even. The dividend yield is now close to 10 per cent, suggesting another cut cannot be ruled out.

NEWS DIGEST

Prospect makes £10m purchase

PROSPECT INDUSTRIES, the specialist engineer is paying £10.1m for Davenport Holdings, which builds water cooling towers. Hull-based Prospect also reported pre-tax losses of £737,000 for the six months to March 31, compared with profits of £112,000.

Davenport, which is Prospect's fourth acquisition in the past year, had pre-tax profits of £1.9m on turnover of £11m in 1991. Net assets at March 31 were £4.5m including net cash of £2.3m.

The consideration, being paid in three parts, will be satisfied by shares or a combination of shares and loan notes at the option of Prospect.

Prospect blamed its fall into losses on the seasonality of its Dunn purchase which was included in the interim results for the first time. However every subsidiary, apart from Airmatic, the smallest company in the group, showed improved results.

Group turnover for the six months was £14.7m (£5m). Losses per share were 0.47p (0.11p earnings). The interim dividend has been increased to 0.25p (0.1p) reflecting directors expectations.

Scantronic Holdings reduced to £2.54m

Scantronic Holdings, the alarms and signalling equipment group, announced lower pre-tax profits of £2.54m for the year to March 31. Last time they were £3.22m.

Turnover was £36.1m, against £42.9m, but the result last time included £6m of turnover from Alarm Parts, since sold.

Mr Christopher Brookes, the chairman, said that minimum growth in overall demand had been experienced but Scantronic had benefited from increased market share. The north American activities had been helped by the completion of a rationalisation programme.

For the current year, he said trading profits had been strong in the first quarter and that the full-year performance should be enhanced by the contribution of recently-released products, including those from the new Arrowhead sensor division.

Operating profits fell from £3.74m – which included £317,000 from Alarm Parts – to £2.96m. The pre-tax figure was after a fall in interest charged to £422,000 (£1.79m).

The directors are recommending an unchanged final dividend of 2.185p, which holds the total at 2.975. Earnings per share fell to 2.18p (3.83p).

There was an extraordinary credit of £1.03m (£2.45m).

Greenwich Res £558,000 in loss

Greenwich Resources, the UK gold mining company, reported a pre-tax loss of £558,000 for the six months to end-March against a restated loss of £39,000 in the comparable period.

Of the loss £380,000 related to exceptional costs arising from the restructuring of United Goldfields Corporation, redundancy costs and provisions.

Operating income, which comprises the net income due to the group from the Paddington Mine in Australia and the pilot processing plant in Venezuela, fell from £182,000 to £74,000. The operating loss grew to £577,000 (£105,000).

Net interest receivable declined from £66,000 to £19,000 and after tax of £81,000 (£152,000) losses per share were 0.9p (0.3p).

Greenwich reported pre-tax profits of £108,000 from operating income of £581,000 for the year to September 1991.

Booker sells Whitworth's arm

Booker, the food distribution, agribusiness and prepared foods group, has sold its Whitworth's Produce group of companies to its management for £11m.

The transaction has been underwritten by 3i, the investment capital group, and the senior debt has been arranged by Midland Bank.

The businesses concerned consist of four potato and vegetable pre-packing and processing businesses employing 500 staff at 10 sites in the UK and overseas.

Chiltern Radio in red to tune of £179,000

Chiltern Radio yesterday reported a reduced pre-tax loss of £179,000, bearing out its warning that it would be unable to break even in its seasonally difficult first half.

The deficit in the comparable period was £234,000, but for the whole of 1990-91 the result was a profit of £114,000.

Sales in the first half to March 31 rose to £2.55m (£1.73m), but the comparable figure included only three months contribution from newly-acquired stations Galaxy Radio and Severn Sound. Losses per share declined to 1.9p (2.5p).

The company has focused its efforts on attracting advertising from smaller companies and has seen evidence of an improvement in sales. It will also continue its efforts to gain another licence.

The directors have decided that it would not be prudent to pay an interim dividend.

Hardys & Hansons declines 8%

Hardys & Hansons, the Nottingham-based brewer, reported an 8 per cent fall in pre-tax profits from £3.45m to £3.16m in the 26 weeks to April 3.

The result was after a halving of dividend income and net interest receivable to £488,000 (£974,000).

Turnover improved to £14.3m (£13.4m). Directors said that on a like-for-like basis, excluding recently-purchased public houses, sales had been down in line with the market, but the additional pubs had helped to increase trading profits by 8 per cent.

Although earnings per share declined to 8.479p (9.183p) the interim dividend is stepped up from 2.68p to 2.8p.

Gartmore Value asset value falls

Gartmore Value Investments had a net asset value of 27.4p at April 30 against 35.5p a year earlier. At June 24 the value was 21.4p.

Pre-tax profits for the year were unchanged at £2.9m.

Earnings per share emerged at 3.81p (4.18p) and the fourth interim dividend, already declared, is held at 1.5p for a total of 4.275p (4.2p).

CONTRACTS

£65m Dutch oil refinery development

AMEC ENGINEERING has been awarded a major European refinery project valued at over £65m by Nerefco, a joint venture between BP and Texaco.

The contract, involving engineering, procurement and construction management, is at Nerefco's Europoort refinery in the Netherlands.

Work will involve a major revamp of the fluidised catalytic cracking unit (FCCU), a new MTBE plant (unleaded petrol) with an output of 65,000 metric tonnes per annum and reinstrumentation of the cracking complex by installation of a distributed control system.

AMEC Engineering will also be responsible for undertaking the maintenance shutdown of the FCCU, which is planned for the last quarter of 1993.

All engineering and procurement activities will be executed from Amec Engineering's London office with support for key site activities from AMEC Engineering BV's offices in Schiedam, close to Rotterdam.

The project is of strategic importance to Nerefco in upgrading its Europoort facility. It follows on from front end engineering design previously undertaken by AMEC Engineering at Europoort and a number of other FCCU revamp projects handled by the company over the last four years.

AMEC Engineering and *AMEC Engineering BV* are both members of the process and energy business sector of AMEC, the international engineering, construction and development group.

Materials handling system

ACCO SYSTEMS, part of the materials handling group of FKI has won a power-and-free conveyor contract worth in excess of US$12m (£6.59m) from one of the largest North American automotive manufacturers for a paint shop system which will incorporate over three miles of conveyor, advanced electronic controls and dozens of specialised robotic devices.

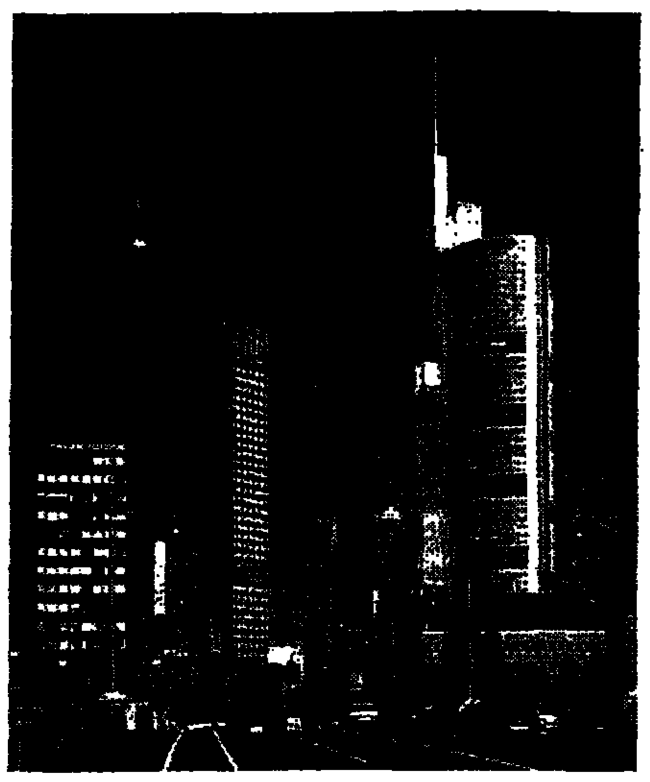
Frankfurt headquarters

BOVIS, the wholly-owned German subsidiary of Bovis International, in joint venture with Lahmeyer International, has been awarded a project management contract for the construction of the new Commerzbank Tower *(pictured right)* which will be located in Frankfurt's financial district.

The 54-storey Commerzbank Tower, providing 47,000 sq metres of office space, will be the headquarters of one of Germany's leading banks and a landmark on the skyline of Frankfurt.

Bovis management systems and hands-on high rise expertise will lead the construction of the structure, designed by Sir Norman Foster. The facade design will incorporate large apertures every three floors, occuring on alternate elevations proceeding up the building.

They will serve as open air gardens and the project is already known locally as "The Gardens in the Sky". Pre-construction work on the US$360m (£194.6m) project has now *begun with completion scheduled for late 1996.*



Storing oil products in Zimbabwe

KVAERNER ENERGY, part of *Norway's Kvaerner group, has* won a contract worth about NKr90m (£8m) for electro-mechanical work on a new rock cavern store for oil products in Zimbabwe.

The order has been placed by Swedish construction contractor Skanska International Civil Engineering, which has a turn-key contract to build the storage facility.

Kvaerner Energy will primarily be involved in design and procurement at its Oslo headquarters, plus installation of piping, pumps, electrical equipment and instrumentation on site in Zimbabwe.

The oil storage facility will be blasted out of the rock outside Harare to provide an *emergency reserve of petrol,* diesel and aviation fuel. Kvaerner Energy's contract extends over a three-year period with installation due to begin in Zimbabwe during the first half of 1993. The store is due to be completed and delivered to the National Oil Company of Zimbabwe (Noczim) in 1994.

Greater Cairo wastewater scheme

An important operations and maintenance contract for the world's largest urban sewerage scheme, the Greater Cairo wastewater scheme, has been won by BIWATER and its Egyptian joint venture partner.

The £3.7m contract has been awarded to the joint venture between Biwater, a supplier and operator in the international water industry, and an Egyptian engineering company, ENGINEERING CONSULTANTS GROUP.

Biwater Operations (BOL), based at Dorking, Surrey, will be responsible for the three wastewater pumping stations serving the massive scheme. These stations - Ameria, Kossous and Khalag - are designed to transfer about 30 cu metres per second from the city to the treatment plants situated north of Cairo, towards the Mediterranean.

The contract is for two years and will involve BOL in the full operations and maintenance of the pumping stations, while at the same time transferring operating technology to local operators so that progressively they take over running the plant by 1994.

The Greater Cairo wastewater scheme is a £2,000m project and is designed to clean up wastewater from the Egyptian capital, the world's fourth largest city and one of the most densely populated.

Its wastewater system has been unable to cope with the pressure from Cairo's growing population and it has regularly overflowed threatening the population with waterborne epidemics.

The first phase of the Cairo scheme was opened earlier this year after seven years of construction by British, American and Egyptian engineers. British government aid has helped fund some of the project.

Mobile telephone systems for Brazil

LM ERICSSON was awarded its first two contracts for cellular mobile telephone systems in Brazil in the beginning of May.

The total value for the two *contracts is over US$20m* (£10.69m).

The first contract is for a complete network for 4,000 subscribers in Porto Alegre in the state of Rio Grande do Sul. It will be operational in December.

The second contract is for a cellular network for 3,500 subscribers in Londrina, the state *of Parana,* to be put in operation in November.

These are cellular systems based on the American analog standard AMPS.

Dairy foods production company for Shanghai

THE EAST ASIATIC COMPANY, the Danish industrialisation fund for developing countries, and Shanghai's XIN AN DAIRY, have signed an agreement to set up a dairy foods production company in Shanghai on a joint venture basis, *writes Hilary Barnes.*

The plant will produce 7,000 tonnes of children's products a year, starting in 1994, and the investment will cost DKr140m (£12.6m).

Copper refinery in Utah

RTZ's wholly-owned subsidiary, Kennecott Corporation, has awarded contracts for engineering and construction management of its new US$880m (£480m) smelter and refinery modernisation to FLUOR DANIEL of Irvine, California, DAVY McKEE CORPORATION of San Francisco, California, and BECHTEL CORPORATION, also of San Francisco, California.

Fluor Daniel, with its joint venture partner Davy McKee, was awarded the engineering and construction management contract for the new Kennecott smelter.

The facility will be built just east of the existing smelter near Salt Lake City, Utah, US.

Kennecott currently exports 40 per cent of its copper concentrate. The new smelter will allow the company to process all of its concentrates at the Utah facility.

Seoul City subway plan

ABB TRACTION of Sweden has received an order for the delivery of the AC propulsion systems for 366 cars for a new subway line, Seoul City Line 5, being built by the Seoul Metropolitan Government, MG. The order is valued at approximately SKr700m (£66.3m).

ABB also has an option on the supply of propulsion systems for a further 200-300 cars.

ABB Traction is acting as subcontractor to the South Korean company Hyundai Precision & Industries, the prime contractor. The delivery time for the first propulsion systems will be extremely short, only 14 months after the signing of the contract.

Retailing project in Spain

AYALA ABBOTT & BUTTERS, Taylor Woodrow's *Suffolk*-based specialist interior contractors, has been awarded a £1m contract to marble a large retail centre attached to the Olympic Hotel in Barcelona.

The 10-week contract calls for Ayala Abbott & Butters to marble 3,500 sq metres of the Sogo department store, including a classical sweeping staircase, *four circular columns* (each 7 metres high, 1.3 metres in diameter and weighing 7.5 tonnes), all the shop fronts, patterned floors and dropped beams.

It was awarded by Circle Industries on behalf of Sogo and Travelstead, its US partner.

RECRUITMENT

JOBS: Top managers' concern to surround themselves with dependable satellites can come in handy

The high price set on personal loyalty

THE main-board director interviewing you for the key job in his domain looks at his watch. Although you feel you have put yourself across adequately, you clearly haven't scored a triumph. Moreover the big-company post is so attractive that, being a touch surprised to have got on the short-list, you are sure there'll be other contenders whose qualifications are stronger.

Now, with the director about to close the proceedings, it is make-or-break. You have time to speak only one more sentence. What is it to be?

Well, the strict truth is that if the Jobs column really knew the answer, it would be too rich to bother raising the question. But there is one formula which I suspect might well turn the trick in the circumstances outlined. It is to say matter-of-factly during the parting handshake: "By the way, I'd like you to know that if I'm appointed, my first loyalty will always be to you personally."

The suggested ploy originates with Professor Jeffrey Pfeffer, of Stanford Business School in the US, whose book Managing with Power* was discussed in this corner of the FT nine weeks ago. As I said then, it is the best guide to organisational politicking that luck has yet brought me.

Among the many aspects of the craft the author covers is the politics of recruiting. And one of the points he makes about that particular branch is: Although we often like to think of the hiring and promotion process as based primarily on merit, ambitious managers understand quite well the necessity of ensuring that the organisation is liberally salted with people obliged to them."

Indeed, recognition of that necessity was apparently a key principle behind the post-war rise of the finance division of General Motors to rule over the whole organisation. Called *the principle of promotion of the unobvious choice*, it entailed "promoting someone who was not yet regarded as a contender for the post. Doing so not only puts 'your man' in position, but it earns for you his undying loyalty because *he owes his cororate life to you.*"

True, as the professor says, such blatantly political devices are rarely acknowledged openly. Nevertheless the advantage of being surrounded by personally loyal satellites is no doubt prized by many if not most high-ranked managers, in big outfits at least.

So despite having not myself tested the interview-ending *formula (I've stumbled across it too late in life to do so)*, my guess is that it might come in handy for job-seekers in the sort of make-or-break position described. If any of them cares to try it, I'll be eager to learn of the result.

NOW, while we're discussing the ambitions of high-flying managers, to the table below which sheds light on which of the so-called functions of business carries most kudos in different countries. The figures are drawn from the latest cross-Europe *survey by the Wyatt management* consultancy's branch in Brussels.

For each of the 10 countries covered, the table ranks the directors in charge of the various functional departments by the money value that companies evidently put on them. The basis of the ranking is the gross pay received in cash – salary plus bonuses and so on – of a typical chief executive, which is indicated at the top in *italics*. The gross cash pay of the different directors is then shown as a *percentage of the relevant chief executive's figure.*

As may be seen, there seem to be considerable variances from land to land in the differential chiefs enjoy over the generality of the managers one notch below.

Switzerland apparently puts the highest value on departmental directors as a whole, and France the lowest – in line with other evidence that, despite its famous revolution, the democratic spirit is less potent there than in most other western countries.

Where the separate functions are concerned, the French are like the British and Irish in giving pride of place to the heads of finance. But the production director comes top in four cases – Switzerland, Germany, the Netherlands and Belgium. Italy prefers the director of research and development, Spain the data-processing chief, and Sweden the director of materials.

FINALLY, to the job of spear-heading an international spirits-distiller's business growth in the former Soviet Union. The post is offered through head-hunter Alan Rundle (Rundle Brownsword, 17 London End, Beaconsfield, Buckinghamshire HP9 2HN; tel 0494 676264, fax 0494 670283) who may not name the employer. He therefore promises to abide by applicant's requests not to be named to his client at this stage.

While *already exporting* brands to the Commonwealth of *Independent States*, the company wants a country manager to run its business there and greatly increase market share.

Candidates need success in managing overseas consumer-brands marketing operations for well known companies. Russian speakers preferred. Base probably Moscow.

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Michael Dixon

Harvard Business School Press, (ISBN 0-87584-314-X) $24.95.

HOW DEPARTMENTAL DIRECTORS' PECKING-ORDERS DIFFER BETWEEN COUNTRIES

	United Kingdom		Switzer-land		Germany		Italy		France		Nether-lands		Belgium		Sweden		Spain		Ireland	
Typical gross pay of chief executives	*£84,670*		*£109,504*		*£118,830*		*£104,098*		*£103,603*		*£83,224*		*£87,413*		*£84,946*		*£94,000*		*£64,766*	
		%		%		%		%		%		%		%		%		%		%
Departmental	Finance	72	Pdcn	88	Pdcn	74	Rsch	72	Fin	62	Pdcn	76	Pdcn	72	Mats	72	D-P	75	Fin	75
directors	Research	69	Eng	83	Rsch	71	Fin	71	Sales	61	Fin	71	Fin	71	Pdcn	72	Fin	74	Sales	74
ranked by	Sales	68	Fin	82	Sales	70	Pdcn	71	Eng	58	Sales	65	Pers	69	Fin	71	Pdcn	72	Pdcn	72
their typical	Production	67	Mats	74	Eng	66	Eng	67	Rsch	58	Rsch	64	D-P	67	Pers	65	Pers	71	Mktg	71
pay as a	Marketing	65	Sales	74	Fin	61	Sales	67	Pdcn	57	Eng	62	Eng	67	Rsch	65	Mktg	70	Mats	70
percentage	D-P	63	Rsch	73	Mats	60	Pers	65	Pers	56	Mktg	60	Mats	66	Sales	65	Sales	69	Pers	70
of chief	Engineering	62	D-P	70	D-P	59	Mktg	60	Mktg	55	D-P	58	Mktg	65	Mktg	63	Mats	65	Eng	67
executives'	Materials	62	Mktg	65	Pers	59	Mats	57	Mats	50	Mats	57	Sales	64	Eng	61	Eng	63	–	–
typical pay	Personnel	57	Pers	64	Mktg	58	D-P	55	D-P	49	Pers	55	Rsch	63	D-P	53	Rsch	53	–	–

Source: Top Management Remuneration, Wyatt, 273 Avenue de Tervuren (Box 4), Brussels 1150, Belgium; tel (02) 771 99 10, fax (02) 762 37 43. £510.

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Personnel Department 27, avenue Monterey L-2951 Luxembourg

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LAC LEMAN

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FT SURVEYS

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ACCOUNTANCY COLUMN

Closing the gaps between expectation and reality

By Allister Wilson

THE RECENT spate of spectacular corporate failures has prompted investors, creditors and commentators to look for scapegoats. Depending on the nature of one's vested interests, it is possible to blame management, the institutions, market conditions or the regulatory system.

Increasingly, however, it has been found convenient to blame the auditor. Auditors are, in turn, quick to point out that allegations of their culpability are merely a manifestation of the "expectation gap".

The expectation gap is a popular professional cliché. It has been defined as the difference between what auditors do and what the public assumes they do or thinks they ought to do. The narrowing of the gap is clearly the principal motivation behind the Auditing Practices Board's (APB) current proposals for the future development of auditing.

These include plans for the revision of existing audit reporting practice. The APB has isolated three key public misconceptions. First, misunderstandings of audited financial statements, such as assuming that they carry some element of guarantee that the entity concerned will continue in existence. Second, misunderstandings as to the type and extent of work undertaken by auditors, such as assuming that auditors prepare the financial statements on which they report. Third, misunderstandings about the level of assurance provided by auditors, assuming, for example, that an unqualified audit report provides absolute assurance that no fraud has occurred.

In order to address these misconceptions, the APB is suggesting that the form of the audit report be expanded to include descriptions of the respective responsibilities of auditors and directors regarding financial statements. A similar approach has been recommended by the Cadbury report.

That the public misconceptions cited by the APB and Cadbury exist is undeniable. Whether or not they are best dealt with through the APB's proposals for an expanded audit report is a different matter. Most of the efforts by the accounting profession to narrow the expectation gap are inevitably flawed because the true nature of the gap has not been fully identified.

Up to now, whenever the question is addressed, discussion tends to focus on issues such as fraud, going concern and the responsibility of directors for the preparation of the accounts.

What is seldom addressed is the distinction between the two main components of the expectation gap – namely the financial reporting component and the auditing component. In my view, this differentiation needs to be clearly made in order to make sensible judgments as to the way in which the various elements of the expectation gap should be addressed.

The financial reporting component of the gap comprises those elements which relate to the purpose, nature and meaning of financial statements. The auditing component relates to the role and responsibility of the auditor in auditing and reporting on those financial statements.

The financial reporting gap includes the misconception that a balance sheet gives an indication of the value of a company. More important, there appears to be a general lack of appreciation of the extent to which the figures presented in a company's financial statements are based on judgments and estimates.

Furthermore, because of the wide range of alternative accounting options available to directors under existing accounting rules, similar transactions can be reported in the accounts in different ways depending on where the directors wish to be on the spectrum between aggressiveness and conservatism in their financial reporting. The auditors are unlikely to be in a position to do otherwise than to state in their report that the accounts give a "true and fair view".

The criticism already levelled at auditors over the financial reporting expectation gap is wholly unjustifiable

It would seem that at present the APB is placing an unrealistic onus and impractical hope on the audit report as a means of narrowing both components of the expectation gap. This is because the principal elements of the gap lie not in the words in the audit report, but in the financial statements on which the auditor is reporting. Or, putting it another way, they lie in the basis of preparation and presentation of the financial statements and not in the method by which the financial statements are audited or reported on by the auditor.

While it is undeniable that the audit-related elements of the expectation gap exist, they are of secondary importance compared with the financial reporting-related elements. If the accounting, legislative and regulatory frameworks under which the financial statements are being prepared are inadequate, then it will make little difference whether the audit report runs to two paragraphs or two pages.

The narrowing of the gap requires a multi-pronged attack with the co-operation of the Accounting Standards Board (ASB), the Stock Exchange and the Department of Trade and Industry, as well as the APB. The expansion of the audit report is an important aspect of this process – but it is only one aspect and should not be dealt with in isolation.

Perhaps a good starting point would be to provide an authoritative explanation of the meaning of "true and fair", which has become a piece of ill-understood jargon. This is an issue which lawyers and accountants have been grappling with for many years, which perhaps indicates that it is a significant element of the expectation gap that needs to be addressed as a first step in the bridging process.

Auditors are an easy target when things go wrong. However, at present there is a strong danger that they will simply find themselves assuming responsibility for legal and regulatory shortcomings not of their making.

The form of accounts whose authentication is the auditor's responsibility is dictated by law. To blame the auditor for its deficiencies is to blame him for limitations in the wider environment of financial reporting which at present he can do nothing about.

Unquestionably the public is entitled to reassurance over the various misunderstandings which the APB has outlined, but the audit report is not the place to pursue these issues. It is not only inappropriate but potentially misleading for an audit report to deal with the nature of financial statements. Moreover, as media comment has demonstrated, the result is to exacerbate the expectation gap.

To bridge both the financial reporting and the auditing components of the expectation gap will require much more than defensive, if well-intentioned, proposals from members of the auditing profession. The ASB, the Stock Exchange and the DTI, in addition to the APB, have a part to play in ensuring that a thorough, on-going reform of financial reporting procedures is immediately set in train.

The expansion of the audit report will be an important aspect of this process, but only one of a number of much-needed improvements. Merely to make audit reports more compendious just because the DTI, ASB, Stock Exchange and institutional investors are reluctant to face up to their responsibilities will solve nothing.

In fact, such a step may well widen the expectation gap rather than bridge it. The criticism already levelled at auditors over the financial reporting expectation gap – an area for which they have little or no control – is *wholly unjustifiable. It is time that the profession dropped its air of apologetic defensiveness.* The fault lies in the wider environment of financial reporting; its redress is a collective responsibility.

Allister Wilson is a technical partner with Ernst & Young and is co-author of the firm's book "UK GAAP – Generally Accepted Accounting Practice in the United Kingdom".

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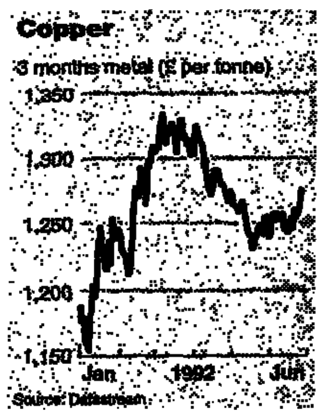
Climbing copper prices boost trading at LME

By Kenneth Gooding, Mining Correspondent



CLIMBING COPPER prices yesterday sparked one of the busiest trading days on the London Metal Exchange for several months. Other metal prices – particularly those of zinc and tin – followed in copper's wake. But some analysts quickly discounted suggestions that buoyant metals prices were indicating a rapid world economic recovery.

Copper, used in a wide range of industries such as construction, transport and communications, historically has been a leading indicator of economic recovery. However, at present its price was being pushed up not by any strengthening of demand but by worries about supplies, suggested Mr David Humphries, an economist at the RTZ Corporation, the world's biggest mining group.

Metals demand in Japan, which accounted for about 18 per cent of world usage, would fall this year. Prospects in the European Community, accounting for 30 per cent, were looking dim because Germany, the driving force, was "coming off the boil," he added. Only in the US, accounting for 25 per cent of world metals usage, was demand showing signs of recovery.

Mr Graham Deller, analyst at the Metals & Minerals Research Services consultancy group, pointed out that OECD industrial production – an important indicator of potential metals demand – was lower in the first quarter this year than in the final quarter of 1991 and was unchanged in the 1992 second quarter. MMRS was looking for industrial production to improve by only 0.5 per cent this year.

"As industrial production usually leads metals prices by about six months, even if there is a pick-up in the second half of this year, we would not see any big pick-up in metals prices until late 1993 or even 1994," said Mr Deller.

Copper's price in dollars jumped to the highest level for more than a year on the LME at one point yesterday. Three-month copper closed last night up £13.75 a tonne at £1,277.

Three-month zinc closed at $1,277.50 a tonne, up $32. Traders suggested this reflected fears that the market's technical tightness would continue for some time. Mr Humphries said: "There has been so much technical activity in the zinc market I'm reluctant to say whether any price movement is evidence of anything at all."

However, he said tin continued to reflect substantial production cuts in recent years. Three-month tin closed last night at $6,852 a tonne, up $115.

Coffee talks make little progress

By David Blackwell

TALKS ON a new international coffee agreement did not appear likely yesterday to come up with any conclusions that could halt the downward spiral in prices.

London's robusta coffee market was quiet, awaiting developments at the International Coffee Organisation, where the talks are due to end this evening.

The momentum towards a new agreement has undoubtedly gathered pace since March, when the Brazilian exporters decided to end their opposition to export quotas.

Since ICO talks in April ended inconclusively producers have had meetings to try to hammer out a policy, but consumers have not met.

Yesterday delegates were wrestling with the problems of so-called selectivity, which aims to classify coffee in order to give consumers choice over which type they import. The mood was better than early in the week, but, in the words of one producer, the talks were "like jogging on the spot".

Chateau quality crosses the Andes

Leslie Crawford on an invasion that is revolutionising Chilean wine

UNTIL QUITE recently, Chile's vineyard owners could boast of their unpronounceable Basque names, family lineages dating back to the Spanish conquest, and little else. Wine-making, like the local aristocracy, was trapped in a time-warp. The industry was both moribund and unprofitable.

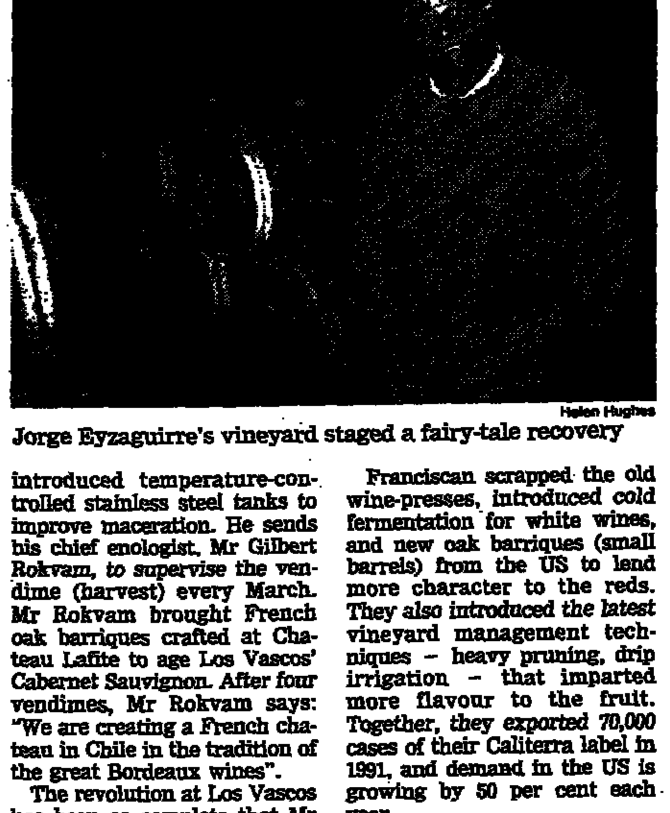
This was before globe-trotting foreign vintners set their eyes on Chile's central valley. Mr Miguel Torres of Spain was the first to arrive, in the early 1980s. He declared Chile a "wine-makers' paradise" and bought 500 acres in the central valley. Mr Torres was followed by Baron Eric de Rothschild of France's Chateau Lafite, California's Franciscan Vineyards and most recently by Mr Bruno Prats of Chateau Cos D'Estournel.

A recent survey by the Wine Spectator found Chile to be the most popular destination among foreign investors in the business. Even banks such as the Toronto Trust of Canada are buying vineyards in Chile.

They are being lured by land values that are a fraction of those in the Napa Valley or Bordeaux, the virtual absence of vine pests and a climate that is ideal for viticulture: hot, dry summers cooled by Pacific breezes at night.

The foreigners have entered into a race to produce moderately-priced quality wines out of Chile, and local winemakers have been quick to take up the challenge. An estimated $100m is being invested in land purchases, planting new vines and importing technology to modernise Chile's antiquated wineries. Some 25,000 acres of vineyards will come into production in four to five years' time.

The fortunes of Los Vascos, an ailing 230-year-old vineyard owned by Mr Jorge Eyzaguirre, staged a fairy-tale recovery after Baron Eric de Rothschild bought half of the estate in 1989. A new state-of-the-art winery was built in 60 days with Baron Eric scrapping the quaint old wooden barrels and



Helen Hughes

Jorge Eyzaguirre's vineyard staged a fairy-tale recovery

introduced temperature-controlled stainless steel tanks to improve maceration. He sends his chief enologist, Mr Gilbert Rokvam, to supervise the vendime (harvest) every March. Mr Rokvam brought French oak barriques crafted at Chateau Lafite to age Los Vascos' Cabernet Sauvignon. After four vendimes, Mr Rokvam says: "We are creating a French chateau in Chile in the tradition of the great Bordeaux wines".

The revolution at Los Vascos has been so complete that Mr Eyzaguirre refers to his pre-1989 vintages as "old testament", in contrast to his "new testament" wines fashioned by Chateau Lafite.

The Rothschild calling card has also opened up foreign markets. Almost the entire production from the 550-acre estate of Los Vascos, about 150,000 cases a year, is exported to 24 countries. It is almost impossible to get hold of a Los Vascos bottle in Chile, unless you are invited to lunch at the Eyzaguirre's 300-year-old hacienda.

Mr Eduardo Chadwick, the great-great grandson of the founder of the Errazuriz Panquehue vineyard, struck a similar partnership with Franciscan Vineyards three years ago. He says the Californians' expertise came just at the right moment.

Franciscan scrapped the old wine-presses, introduced cold fermentation for white wines, and new oak barriques (small barrels) from the US to lend more character to the reds. They also introduced the latest vineyard management techniques – heavy pruning, drip irrigation – that imparted more flavour to the fruit. Together, they exported 70,000 cases of their Caliterra label in 1991, and demand in the US is growing by 50 per cent each year.

"We can taste the improvements with every new vintage," Mr Chadwick says. "In five more years Chilean winemaking will have come of age."

Mr Chadwick and Franciscan Vineyards parted company earlier this year because of differences over expansion plans, but the US winemaker has stayed in Chile.

Franciscan has just bought 7,500 acres in the hottest new vineyard region in Chile – the Casablanca valley between Santiago and the port of Valparaiso. Casablanca is acquiring a reputation for producing the best Chardonnay grapes in Chile, and land prices there have doubled almost overnight. Franciscan is investing $8m to transform former grazing fields into a prime wine estate. The first vines of Merlot, Chardonnay, Cabernet and Zinfandel, will be imported from California in August. A new winery will be ready in time for the first harvest in 1994.

European and American palates, meanwhile, have developed a thirst for Chile's new wines. Exports have grown five-fold in as many years. Chile's Wine Exporters' Association estimates that 10m cases will be shipped abroad this year, worth about $100m. Chile recently overtook Germany as the third largest wine exporter to the US, behind France and Italy.

With the river of wine flowing out of Chile fast becoming a torrent, exporters are beginning to lock horns over marketing strategies. Small vineyards, such as Los Vascos and Errazuriz Panquehue, believe Chile's best chance is to establish a niche in the quality end of the market. "Our main objective is not to grow in volume but to win a better recognition for our wines," Mr Chadwick says.

The big players, such as Concha y Toro and Santa Rita, are keen to cash in on the export bonanza and argue that they are not sacrificing quality for volume.

Santa Rita's exports have been doubling every year and Mr Rodrigo Buzeta, the winery's export manager, says he can barely keep up with orders from abroad. He says Santa Rita will ship 500,000 cases to 30 countries this year, worth more than $8m.

But even he acknowledges that this frenzied expansion carries risks. The European Community is swimming in wine lakes, the world is saturated with plonk, and wine-lovers are drinking less, although they are spending more on premium wines. Mr Buzeta says Santa Rita is spending $2m a year to maintain the quality of its vineyards while it expands. The company aims to be producing 100 per cent estate bottled wines by the end of 1994. Even the race to produce world-class wines, he reflects, requires patience.

Flooded Bolivian farmers on hunger strike

By Francis Freisinger in Santa Cruz

THE BOLIVIAN Eastern Farmers Chamber (CAO) has declared an indefinite hunger strike in protest at the lack of government aid in the wake of the agricultural disaster that has struck the Santa Cruz department as a result of months of flooding. Peasant groups have announced other measures in support of the CAO – including road blocks – and a regional general strike may follow.

Santa Cruz in the east of the country, which produces 90 per cent of Bolivia's agricultural exports, principally soyabeans and sugar, has been devastated since January by the worst floods in living memory. At least a third and possibly as much as half the crop has been lost already and the sowing of the next crop has been seriously disrupted, the losses will continue for another harvest. At least $100m has been lost to date, a vast sum for Bolivia. As a result there will be a marked reduction in GNP growth this year according to economists.

Nearly a hundred farmers from the CAO have joined the hunger strike, including some of the wealthiest men in the country, and as many as 500 more are poised to follow. In a remarkable development, the hardline right-wing farmers have literally become bedfellows with their traditional enemy, the Bolivian Workers' Central (COB), the national union confederation which still adheres, at least in theory, to a revolutionary Marxist ideology. Some of COB leaders have joined the hunger strike and are now sleeping in the same room as the farmers.

The farmers are calling for much more direct government and international assistance as well as rescheduling of loans from both private banks and multinational institutions, principally the Inter-American Development Bank. They are demanding special help for the smaller farmers, worst hit financially because of their lack of access to credit, as a result of which thousands face bankruptcy. The CAO President, Mr Sergio Justiniano said: "We will remain on hunger strike until a global solution is found".

The flooding is partly the result of exceptionally heavy rains that have accompanied the El Niño cyclical Pacific weather phenomenon, which has also brought flooding this year to Peru and Ecuador. However, according to ecologists, the effect has been exacerbated in Bolivia by the extensive deforestation that has accompanied the agricultural boom of the past few years.

Despite officially declaring the region a disaster zone, the government claims that it is unable to help. Mr Hugo Lozino, minister of peasant development said: "We have done what we can. Bolivia is a poor country and can't afford to do more".

It seems unlikely, however, that the government will be able to resist the powerful alliance confronting it, especially as it faces unrest in other key sectors, including mining.

Danes face ruin as drought continues

SEVERAL THOUSAND Danish farmers appear to be facing ruin as a result of the worst early-summer drought in living memory, writes Hilary Barnes in Copenhagen.

Farmers in some areas began harvesting this week, a month earlier than normal. In other areas they were ploughing back spring-sown crops, which have been destroyed by the drought.

The national average grain yield "as of today" is expected to decline by 20 per cent for winter grain and 25 per cent for spring grain, according to the State Agricultural Advisory Centre. The spring rape and pea harvest will be down by at least 35 per cent, while the yield from winter rape will be down by 15-20 per cent.

Mr H.A.O. Kjeldsen, president of the Agricultural Council (umbrella organisation for all the main farmer's organisations) as appealed to the industry's creditors not to panic and urged the government to work out a form of drought aid which will not further increase farm debt.

The Minister for Agriculture, Mr Laurids Tornaes, said on Tuesday that he was considering how to help the worst-hit groups of farmers.

The Advisory Centre's figures are averages, and yields in areas where there are light, sandy soils, such as north and west Jutland, may fall by between 50 and 75 per cent generally, with some fields yielding nothing at all.

The "as of today" outlook could worsen rapidly if there is no rain soon – and the forecast is for fine, sunny weather for the next week. The Danish grain harvest totalled 9.6m tonnes in 1990 and 8.8m tonnes in 1991, while the rape harvest is about 800,000 tonnes annually.

British Columbia tries to end pulp strike

By Robert Gibbens in Montreal

BRITISH COLUMBIA is trying to restart negotiations to end a damaging two-week-old pulp and paper industry strike.

Mr Moe Sihota, the labour minister asked the government mediator to try to get the employers and two unions back to the table by the weekend, urging both sides to display flexibility.

However the initial reaction from the employers was sceptical. "Our circumstances have not changed and dolling out money is not in the cards," said Forest Industrial Relations, their bargaining agent.

The strike began June 15 after the Canadian Paperworkers' Union and the Pulp, Paper & Woodworkers overwhelmingly refused an industry offer of C$1 (45p) an hour over two years and modest gains in fringe benefits. The unions last year accepted a 10-month extension of the old contract because of the industry's heavy losses – well over C$500m in British Columbia in 1991.

The strike by 13,000 workers has halted 19 pulp and paper mills throughout British Columbia. Timber prices have moved up and softwood pulp producers east of the Rockies are seeking a price rise of US$40 a tonne – US$600 to take effect from July 1.

North American softwood pulp stocks are relatively tight, but newsprint stocks are sufficient for more than 40 days and there is spare capacity especially in eastern Canada.

British Columbia accounts for 12 per cent of North American capacity and 15 per cent of combined North American and Scandinavian northern softwood pulp capacity.

WORLD COMMODITIES PRICES

MARKET REPORT

London COCOA futures recovered from fresh 16½-year lows to record slight gains, but dealers said they were under no illusions that the long-term downtrend had ended. "The small rise was down to bargain-hunting. Nothing's happened to change our bearishness," said one trader. Talk of selling by Ghana and Ivory Coast, with the threat of more to come, kept the market under pressure. New York cocoa futures were firm at midday on the softness of the dollar. GOLD and PLATINUM added slightly to earlier gains in afternoon trading on the London bullion market. But trade remained patchy and neither metal looked like breaking out of current tight ranges, dealers said. Platinum dealers in particular faced a dilemma; they were reluctant to go short with the situation in South Africa so uncertain, but downside pressure has been building recently due to a perceived slowdown in demand as major economies show signs of weakness. In Chicago WHEAT prices were higher at midday on forecasts for rain that could delay harvesting, traders said. Thunder storms in the southern Great Plains continue to hamper wheat cutting in Texas, Oklahoma and Kansas.

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London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$19.45-9.50z	+.025
Brent Blend (dated)	$21.45-1.60	-.025
Brent Blend (Aug)	$21.50-1.55	
W.T.I (1 pm est)	$22.80-2.90z	
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$238-240	-1
Gas Oil	$194-196	+2
Heavy Fuel Oil	$84-86	-1
Naphtha	$205-207	-1.5
Petroleum Argus Estimates.		
Other		+ or -
Gold (per troy oz)♣	$343.35	+0.70
Silver (per troy oz)♣	404.0c	+1.0
Platinum (per troy oz)	$354.75	-0.75
Palladium (per troy oz)	$80.70	-0.15
Copper (US Producer)	110.90c	+2.15
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	16.88r	+0.03
Tin (New York)	319.50c	+6.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	110.87p	-3.13*
Sheep (live weight)†♣	76.17p	-6.46*
Pigs (live weight)†	90.77p	-2.93*
London daily sugar (raw)	$268.0t	+0.6
London daily sugar (white)	$295.0t	-1.0
Tate and Lyle export price	£251.0‡‡	+0.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£148.0	
Wheat (US Dark Northern)	Unq	
Rubber (Aug)♥	51.00p	-0.25
Rubber (Sep)♥	51.00p	-0.25
Rubber (KL RSS No 1 Jul)	220.0r	-1.5
Coconut oil (Philippines)§	$555.0w	-2.5
Palm Oil (Malaysian)§	$402.5y	+2.5
Copra (Philippines)§	$380.0y	
Soyabeans (US)	£141.5	-2.0
Cotton "A" Index	65.90c	+1.45
Wooltops (64s Super)	388p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Jun/Jul y-July w-Jul/Aug z-Aug. †Meat Commission average fatstockprices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♣Sheep prices are now live weight prices.‡‡ previous figure should have been 250.5

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	244.00	245.00	246.00	244.00
Oct	218.20	218.00	217.40	
Mar	209.00		208.60	
May	205.00		204.00	
White	**Close**	**Previous**	**High/Low**	
Aug	289.00	290.50	289.50	288.00
Oct	268.50	269.00	268.50	267.50
Dec	267.40	268.00	268.00	266.00
Mar	271.20	271.50	270.50	270.00
May	276.20		274.30	273.80
Aug	279.70		278.50	278.30

Turnover: Raw 262 (63) lots of 50 tonnes. White 1346 (2314)
Paris- White (FFr per tonne): Aug 1520.11 Oct 1416.63

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Aug	21.46	21.57	21.59	21.41
Sep	21.37	21.47	21.49	21.34
Oct	21.25	21.36	21.34	21.25
Nov	21.21	21.26	21.23	21.12
Dec	21.05	21.15	21.13	21.04
Jan	20.97	20.94	20.97	20.94
IPE Index	21.53	21.27		

Turnover 11000 (23278)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Jul	196.00	196.00	195.25	193.50
Aug	196.50	196.00	196.75	195.00
Sep	198.50	197.00	199.00	196.75
Oct	201.25	199.50	201.25	199.00
Nov	202.50	201.00	202.75	200.50
Dec	203.75	202.25	203.75	202.00
Jan	200.75	199.50	201.50	

Turnover 10727 (12793)lots of 100 tonnes

FRUIT & VEGETABLES
Plums from Spain are this week's best fruit buy at 48-60p a lb (80p-£1.00) reports the FFVIB. Other good buys include New Zealand kiwifruit at 16-22p each (20-25p) and French and Italian peaches at 15-20p each. Jersey courgettes are now in peak supply and are priced at 45-60p a lb (65-75p). Other good buys include English & Dutch peppers (all colours) at £1.20-1.50 a lb (£1.00-1.20). English Broad beans at 40-45p a lb (30-35p) and English peas at 35-55p a lb (30-50p). Top Quality Dutch Beef tomatoes are superb this week and priced at 60-75p a lb (75-85p) along with English Iceburg lettuce at 65-70p each (55-65p).

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Jul	508	499	506	498
Sep	523	516	522	509
Dec	550	544	550	538
Mar	579	572	580	567
May	598	590	595	586
Jul	616	608	615	605
Sep	634	627	633	624
Dec	660	654	659	651
Mar	690	683	687	679

Turnover: 5277 (3614) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 24 663.49 (668.51) 10 day average for Jun 25 676.04 (674.95)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low	
Jul	693	689	697	692
Sep	709	708	717	706
Nov	725	722	732	725
Mar	759	760	765	760
May	775	773	783	

Turnover:1883 (3955) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 24: Comp. daily 46.60 (46.67) 15 day average 46.34 (46.49)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low	
Apr	87.5	91.5	88.9	87.0

Turnover 96 (38) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low	
Aug	121.00	122.50	121.50	121.00
Oct	123.60		124.30	123.60
Dec	127.50		127.50	

Turnover 150 (100)lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
Jun	1115	1120	1115	
Jul	1006	1021	1020	1006
Aug	1030	1035	1035	1030
Oct	1160		1170	1160
Jan	1210	1211	1210	
BFI	1122	1127	1122	

Turnover 82 (185)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
Sep	111.50		111.60	111.40
Nov	114.20	113.80	114.20	114.00
Jan	117.60	117.30	117.60	
Mar	120.60	120.30	120.60	120.45
May	123.50	123.25	123.50	
Jun	125.00		125.00	
Barley	**Close**	**Previous**	**High/Low**	
Sep	108.50	107.70	108.50	108.25
Nov	112.25		112.25	112.00
Jan	115.00		115.00	
Mar	118.00		118.00	117.40
May	119.50		119.50	

Turnover: Wheat 238 (142) , Barley 90 (0).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low	
Jul	113.0	113.3	113.0	
Aug	105.0		105.7	105.0
Sep	105.0		106.0	

Turnover:38 (1) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 22,249 lots
Cash	1250.5-1.5	1242.5-43.		1257-7.5		
3 months	1276-7	1268.5-69	1288/1278	1281.5-2	1280-1	161,831
Copper, Grade A (£ per tonne)						Total daily turnover 59,298 lots
Cash	1259.5-60.5	1245-46	1265	1265-5.5		
3 months	1277-8	1263.5-64	1286/1275	1283-3.5	1280.5-1	110,074 lots
Lead (£ per tonne)						Total daily turnover 2,750 lots
Cash	292.5-3.5	293-94		293.5-3.75		
3 months	304-4.5	305-5.5	306/304.5	305-5.25	304-4.5	17,355 lots
Nickel ($ per tonne)						Total daily turnover 3,327 lots
Cash	7155-65	7145-55	7190/7175	7170-5		
3 months	7235-45	7225-30	7288/7230	7240-5	7240-5	23,316 lots
Tin ($ per tonne)						Total daily turnover 2,221 lots
Cash	6855-65	6740-45	7175	6790-5		
3 months	6850-55	6735-40	6875/6755	6790-5	6865-70	9,974 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 25,357 lots
Cash	1347-8	1322-24	1361	1360-1		
3 months	1277-8	1245-46	1289/1255	1287-7.5	1283-4	55,066 lots

LME Closing £/$ rate:
SPOT: 1.8915 3 months: 1.8642 6 months: 1.8412 9 months: 1.8191

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	343.20-343.60	
Opening	342.60-343.00	
Morning fix	343.15	181.917
Afternoon fix	343.40	181.501
Day's high	343.60-343.80	
Day's low	342.70-343.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	3.44	6 months	3.36
2 months	3.40	12 months	3.46
3 months	3.37		

Silver fix	p/troy oz	US cts equiv
Spot	213.65	403.45
3 months	218.90	407.15
6 months	224.15	411.25
12 months	235.00	421.45

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	343.50-344.50	181.50-182.00
Maple leaf	354.00-355.00	187.10-187.60
New Sovereign	84.00-85.00	44.50-45.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1150	111	128	3	3
1250	14	43	3	14
1350	3	6	89	75
Copper (Grade A)	**Calls**		**Puts**	
2250	139	141	3	3
2350	40	58	3	18
2450	3	14	61	72
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
600	110	129	1	4
650	67	87	8	12
700	33	53	24	28
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
500	33	62	10	12
525	19	46	21	21
550	10	32	37	32
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
2100	64	80	16	41
2150	34	53	35	
2200	15	30		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	343.2	342.8	343.7	343.1
Jul	343.6	343.2	0	0
Aug	344.6	344.3	345.2	344.0
Oct	346.4	346.1	347.0	346.1
Dec	348.3	348.1	348.9	347.7
Feb	350.5	350.3	0	0
Apr	352.6	352.5	353.0	353.0
Jun	354.9	354.8	355.6	355.6
Aug	357.4	357.3	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jun	368.4	368.4	0	0
Jul	359.6	359.4	362.5	359.0
Oct	367.8	367.1	370.5	366.5
Jan	366.3	365.8	367.0	366.5
Apr	366.3	365.8	368.5	365.7

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	400.2	402.1	0	0
Jul	400.3	402.3	404.0	400.0
Aug	402.1	404.1	0	0
Sep	403.3	405.4	407.0	403.0
Dec	408.0	410.0	412.0	407.5
Jan	409.7	411.7	0	0
Mar	412.9	414.9	416.5	413.0
May	416.3	418.4	0	0
Jul	419.7	421.8	422.0	422.0
Sep	423.5	425.7	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	107.70	106.85	108.15	107.60
Jul	107.70	106.85	108.30	107.50
Aug	107.90	107.20	108.10	108.10
Sep	108.10	107.40	108.80	107.90
Oct	107.95	107.25	0	0
Nov	107.75	107.10	0	0
Dec	107.55	106.90	108.40	107.40
Jan	107.20	106.55	0	0
Feb	106.80	106.20	107.40	107.40
Mar	106.45	105.85	107.00	106.45

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	10.97	10.91	11.00	10.85
Oct	9.71	9.67	9.73	9.57
Mar	9.50	9.47	9.50	9.39
May	9.43	9.40	9.43	9.32
Jul	9.33	9.32	9.27	9.26
Oct	9.21	9.25	9.25	9.25

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	22.80	22.89	22.92	22.72
Sep	22.66	22.77	22.79	22.62
Oct	22.55	22.65	22.67	22.51
Nov	22.42	22.53	22.53	22.40
Dec	22.30	22.41	22.41	22.26
Jan	22.15	22.25	22.25	22.13
Feb	22.00	22.08	22.08	22.00
Mar	21.78	21.90	21.84	21.78
Apr	21.68	21.75	21.69	21.67
May	21.59	21.62	21.59	21.55

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	6400	6366	6440	6320
Aug	6430	6391	6475	6350
Sep	6490	6474	6530	6440
Oct	6580	6554	6605	6520
Nov	6645	6634	6675	6610
Dec	6700	6699	6745	6670
Jan	6690	6701	6740	6690
Feb	6570	6570	6590	6550
Mar	6330	6315	6330	6295
Apr	6090	6090	0	0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	801	792	807	795
Sep	853	831	854	836
Dec	905	885	906	890
Mar	950	930	949	935
May	980	960	975	975
Jul	1010	990	1005	1006
Sep	1037	1020	1039	1033
Dec	1077	1060	0	0
Mar	1117	1100	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	54.75	56.70	57.60	54.50
Sep	57.95	58.85	59.80	57.60
Dec	60.80	61.65	62.60	60.50
Mar	63.70	64.40	65.10	63.60
May	67.80	66.55	69.30	67.75
Jul	69.90	70.75	70.75	69.90
Sep	71.95	73.00	73.25	71.75

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	64.65	64.50	65.60	64.20
Oct	63.68	64.00	64.25	63.57
Dec	63.42	64.02	64.20	63.25
Mar	64.48	65.15	65.00	64.35
May	65.00	65.46	65.00	64.65
Jul	66.25	65.75	66.45	66.45
Oct	64.00	64.13	0	0
Dec	64.03	64.05	64.25	64.00

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	127.35	126.65	127.75	126.50
Sep	117.85	117.60	118.70	117.60
Nov	113.80	114.25	114.65	113.80
Jan	112.25	112.70	113.15	112.20
Mar	112.25	112.75	113.25	112.25
May	111.75	112.50	112.75	112.75
Jul	111.75	112.50	112.75	112.75
Sep	111.75	112.50	112.75	112.75
Nov	111.75	112.50	112.75	112.75

INDICES

REUTERS (Base: September 18 1931 = 100)			
Jun.25	Jun.24	mnth ago	yr ago
1571.3	1598.4	1601.7	1778.6

DOW JONES (Base: Dec. 31 1974 = 100)				
	Jun.24	Jun.23	mnth ago	yr ago
Spot	119.83	119.80	117.15	129.39
Futures	119.67	119.87	117.43	125.94

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	608/0	599/2	611/4	603/4
Aug	611/2	603/0	615/0	607/0
Sep	616/4	606/4	620/0	611/4
Nov	623/4	613/4	627/0	618/4
Jan	631/2	621/4	633/4	627/0
Mar	638/0	629/0	641/0	635/0
May	643/0	633/4	644/0	638/4
Jul	644/4	635/4	645/4	641/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	20.83	20.66	20.95	[illegible]
Aug	21.04	20.81	21.14	[illegible]
Sep	21.23	21.01	21.28	[illegible]
Oct	21.37	21.18	21.42	[illegible]
Dec	21.65	21.46	21.78	[illegible]
Jan	21.78	21.58	21.85	[illegible]
Mar	22.03	21.80	22.10	[illegible]
May	22.30	22.09	22.35	[illegible]

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	182.6	180.7	183.3	[illegible]
Aug	183.3	181.5	184.5	[illegible]
Sep	184.9	182.5	185.5	[illegible]
Oct	201.0	198.6	202.5	[illegible]
Dec	201.7	198.9	203.5	[illegible]
Jan	202.7	199.5	203.1	[illegible]
Mar	204.5	201.0	205.0	[illegible]
May	205.5	203.0	205.5	[illegible]

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	253/4	249/6	254/0	[illegible]
Sep	257/6	253/6	258/2	[illegible]
Dec	262/4	258/2	263/2	[illegible]
Mar	269/4	265/2	270/0	[illegible]
May	272/2	268/2	273/2	[illegible]
Jul	275/0	270/6	275/2	[illegible]
Sep	264/4	261/0	0	[illegible]
Dec	260/6	259/4	260/6	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	349/6	348/6	354/4	[illegible]
Sep	353/6	353/2	358/4	[illegible]
Dec	362/6	361/2	367/4	[illegible]
Mar	363/2	361/6	367/2	[illegible]
May	350/0	349/0	353/0	[illegible]
Jul	331/4	330/0	336/0	[illegible]
Sep	337/4	336/0	0	[illegible]
Dec	347/4	346/0	0	[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	70.725	70.450	70.975	[illegible]
Oct	71.150	70.825	71.350	[illegible]
Dec	70.250	69.975	70.425	[illegible]
Feb	70.000	69.500	70.000	[illegible]
Apr	71.075	70.825	71.200	[illegible]
Jun	68.425	68.025	68.500	[illegible]
Aug	67.300	67.275	67.300	[illegible]

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	46.700	46.700	46.725	[illegible]
Aug	44.100	43.950	44.175	[illegible]
Oct	39.900	40.025	40.000	[illegible]
Dec	42.200	42.025	42.300	[illegible]
Feb	43.400	43.325	43.500	[illegible]
Apr	42.550	42.450	42.650	[illegible]
Jun	47.650	47.650	47.625	[illegible]

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	31.850	31.500	31.975	[illegible]
Aug	29.525	29.325	29.650	[illegible]
Feb	40.300	40.250	40.400	[illegible]
Mar	39.700	40.100	39.900	[illegible]
May	40.700	40.500	40.700	[illegible]
Jul	40.200	40.600	0	[illegible]

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BP news too late to hit share prices

By Terry Byland, UK Stock Market Editor

SHARE prices on the London stock market yesterday recovered most of the losses of the previous session, helped along by a further rally in tobacco issues and buying orders from marketmakers needing stock ahead of the close today of the equity market trading account.

But the shock announcement, after market hours, that the chairman of BP had resigned, set the stage for a difficult opening to the stock market this morning.

Earlier, the corporate news background had been brighter than in some recent sessions. Confirmation of details of the share placing by Wellcome brought no unexpected surprises, with the £3bn total in line with expectations. Shares in Midland Bank moved ahead strongly in line with the performance of Hongkong & Shanghai Banking Corporation as its bid for the UK clearer drew to its close yesterday. The return to profits at TSB was also helpful but not exciting for the stock market.

With both Tokyo and New York again in better form overnight, London opened sharply better and, with only a brief check, the market moved ahead steadily. Wall Street stumbled a little early in its new session, to show a gain of 8 Dow points in UK hours, and gains were trimmed in London in late dealings.

The final reading put the FT-SE Index at 2,557.3 for a gain of 24.7, almost a complete reversal of the fall of the previous day. Several programme trades were reported but dealers said these had little effect on the market.

Seaq-reported turnover remained relatively high with 461.6m shares traded against 582.1m on Wednesday. Stock Exchange statistics disclosed that retail or customer business on Wednesday totalled £1.2bn, confirming that the big institutions had been sellers of stock on a day when the Footsie Index fell by 28 points.

Once again, trading was stock specific yesterday. ICI gained ground but recorded turnover barely above the 500,000 share mark. Glaxo, on the other hand, made little move but traded briskly.

The strongest recoveries came yesterday in those stocks which had been hardest hit in Wednesday's selling bout. Prominent among them were the tobacco stocks, where BAT Industries and Rothmans International stood out; the latter benefited from trading figures but traders stressed that it was the reappraisal of the US Supreme Court ruling on health liability that sustained the shares. British Aerospace staged a significant recovery from the weakness of the earlier part of this week.

While the two week trading account has seen share prices giving back some of the gains achieved in the weeks following the UK general election in April, last week brought a highly erratic performance.

Marketmaking firms were hard at work yesterday picking up stock to meet selling agreements entered into earlier in the week. As often in current markets, the stock index futures sector bore much of the brunt. The September contract on the FT-SE Index attracted support, and the expanding premium gave sustenance to the underlying blue chip stocks.

Account Dealing Dates			
*First Dealings:	Jun 15	Jun 29	Jul 13
Option Declarations:	June 25	Jul 9	Jul 23
Last Dealings:	Jun 26	Jul 10	Jul 24
Account Day:	Jul 6	Jul 20	Aug 3

*New-time dealings may take place from 8.30 am two business days earlier.

Oil sector braced for selling

OIL SHARE dealers are bracing themselves for a barrage of selling today following the dramatic resignation after market hours last night of Mr Bob Horton, chairman and chief executive of British Petroleum.

The chairman's resignation was interpreted by the stock market as a signal that BP will halve its quarterly dividend from 4.2p to 2.1p when its second-quarter figures are announced on July 30. Mr Horton has been regarded as the standard bearer for BP's dividend in the face of the oil company's huge debt burden and falling profits.

London's closing price for BP of 243p, up 5, was struck before news of Mr Horton's resignation. In early trading on Wall Street, BP shares plummeted to around 205p-215p in the wake of the resignation announcement. London traders fear that BP stock could open at 210p in London this morning. The BP group, once the UK's biggest company by market capitalisation, has been relegated to fourth spot.

Analysts believe that the dividend will be cut when the second-quarter numbers are published. Mr John Toalster, oil specialist at Strauss Turnbull, said: "We expected the dividend to be cut by a third in the third quarter but this news means it will almost certainly be halved in July."

Burton downgrade

Profit-taking combined with a broker's downgrade left Burton Group 2¼ off at 46½p after active trading of 5.4m. The shares have risen 16 per cent in the last three months, and some in the market decided they looked expensive and decided to take profits.

Securities house Nomura snipped its profits forecast for the next two trading years, analyst Mr Andy Hughes arguing that Burton's recent good performance has been based on recovery hopes, but that sales growth in June has not been as strong as in April and May.

He suspects that the company's debt burden may now be larger than expected, and is looking for profits of £17.5m in 1992/93, down £7.5m, and for £35m, against £47.5m, the year after.

Tesco reaction

Supermarket groups underperformed the market, partly as a result of analysts' disappointment with a presentation by Tesco on Wednesday, and also after an overnight programme trade from the US, reported to include UK stores and food retailers.

Tesco lost 3 to 278p on good turnover of 3.9m shares, as analysts reacted to the company's presentation by saying that it might be all very well to talk about cost savings ranging from £75m to £120m between now and 1995, through changes in store designs, but why were there no sales figures for the first quarter?

Mr Jeremy Alun-Jones at Lehman Brothers described the presentation as "cagey on current sales", leaving analysts doubting how good the figures are.

It was also pointed out that inflation across Tesco's product range has fallen to 2¼ per cent, apparently held down by low seasonal food prices, meaning there may be less money than expected passing through the check-out tills.

The long drawn out battle for control of Midland Bank came to an end with the news that Hongkong and Shanghai Banking Corporation's bid for the bank had been declared unconditional. HSBC said it had acceptances for around 64 per cent of the Midland equity.

The HSBC bid was given a very substantial boost by the strong performance of the Hong Kong market, which helped HSBC shares to rise sharply. Midland ended the day 22 higher at 452p.

A series of analysts' upgrades caused Whitbread "A" to jump 21 to 432p, although turnover was little more than average at 1.8m shares. Brewing analysts at Cazenove, the company's broker, Nomura, Strauss Turnbull and S.G. Warburg Securities revised their profits forecasts upwards following a presentation by the company.

Mr Derek Brock at Nomura raised his forecast for the current year by £5m to £275m.

After being dogged by recent bad news, the holiday sector was provided with some relief by Airbreak, the USM-quoted tour group. It announced that sales for the first five months of 1992 were up 75 per cent and average prices 31.5 per cent. Perhaps more importantly, the group said there was little discounting, the subject which had been undermining the sector's performance in recent days. Airbreak rose 6½ to 49p, with Airtours rallying 7 to 260p and Owners Abroad 2¼ to 76p.

British Aerospace shrugged off the recent gloom and moved sharply forward on talk that GEC was taking more than a passing interest.

BAe shares jumped 22 to 272p, although several analysts dismissed the talk and instead attributed the day's move to bargain hunting. Turnover reached 2.2m. BAe was also busy in traded options, where some 2,149 contracts were dealt, the equivalent to about 2m shares. GEC edged forward 2 to 228p.

The start-up for the Globex after-hours screen trading service provided a boost for Reuters shares, which forged ahead 27 to 1130p in thin volume.

The big losses and the sale of the banking and leasing businesses left Brown Shipley 35 weaker at 80p. Other merchant banking issues were still restrained by worries that the Isosceles debt refinancing programme has run into problems.

Other banks performed strongly, with Barclays boosted by a Robert Fleming buy note. TSB's figures were given a gloomy reception, the shares closing 2 off at 132p.

Tobacco shares, depressed on Wednesday by a US Supreme Court ruling, recovered as observers suggested that the court decision was not as bad for the companies as at first appeared likely. BAT Industries strengthened 18 to 751p in solid volume of 5.1m shares. Rothmans "B" appreciated 24 to 1115p after announcing a 4.2 per cent rise in annual profits and proposing a two-for-one share split.

The maintained dividend and an expression of confidence that the debilitating price war in the plasterboard market has been brought to an end prompted a flurry of support for BPB shares, which closed 10 ahead at 175p, after 177p.

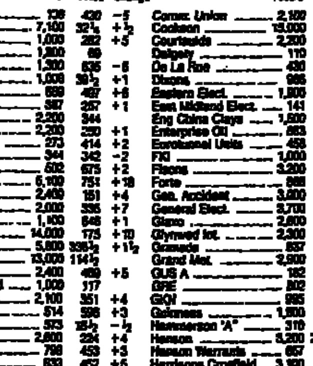
Shares in P & O bucked the market trend to end lower after broker Charterhouse Tilney downgraded current year profits expectations.

The market reacted coolly to the detailing of Wellcome's proposed share flotation, mainly because many of the key elements had been well leaked in advance. The shares initially shot forward, but retreated in a quiet pharmaceuticals sector, eventually settling just a penny to the good at 914p.

MARKET REPORTERS:
Christopher Price, Steve Thompson, Joel Kibazo, Colin Millham.

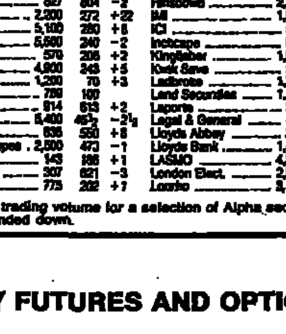
■ Other market statistics, Page 24

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



FINANCIAL TIMES STOCK INDICES

	June 25	June 24	June 23	June 22	June 19	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	88.73	88.53	88.55	88.67	88.73	83.45	89.62 (29/5)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.53	104.34	104.26	104.33	104.36	92.80	105.92 (2/6)	97.15 (2/1)	105.92 (2/6/92)	50.53 (3/1/75)
Ordinary Share●	1994.5	1979.9	1996.7	1986.4	2006.6	1901.5	2149.7 (22/5)	1851.4 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	95.3	94.6	97.1	98.7	103.4	198.2	160.6 (10/1)	94.6 (24/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2557.3	2532.6	2560.6	2550.3	2584.8	2437.3	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1186.66	1178.68	1185.92	1186.61	1195.73	1142.01	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.62 (16/1/91)
●Ord. Div. Yield	4.63	4.66	4.62	4.66	4.61	4.98				
●Earning Yld %(full)	6.79	6.83	6.77	6.83	6.77	8.76				
●P/E Ratio(Net)(☆)	18.48	18.35	18.48	18.34	18.50	14.04				
SEAQ Bargns 5.00pm	21,766	21,183	21,079	21,824	22,417	26,190				
Equity Turnover(£m)†	-	1198.0	805.1	949.3	864.7	858.71				
Equity Bargains†	-	23,318	23,843	25,058	24,194	25,029				
Shares Traded (ml)†	-	481.4	326.1	368.5	365.6	408.4				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 17.13 ‡ Partial

Ordinary Share Index, Hourly changes — Day's High 1996.2 — Day's Low 1986.0

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1987.6	1989.3	1992.6	1988.2	1986.1	1988.8	1992.8	1995.9	1995.9

FT-SE 100, Hourly changes — Day's High 2558.2 — Day's Low 2545.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2545.8	2547.4	2551.0	2548.2	2546.0	2548.5	2553.6	2557.5	2558.2

FT-SE Eurotrack 200, Hourly changes — Day's High 1187.32 — Day's Low 1182.73

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1185.93	1185.71	1184.50	1183.49	1183.16	1185.21	1187.04

GILT EDGED ACTIVITY

Indices*	June 24	June 23
Gilt Edged Bargains	104.0	93.3
5-Day average	90.9	87.8

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	138	420	-5
ASDA Group	7,100	32¼	+½
Abbey National	1,000	282	+5
Albert Fisher	1,800	69	
Allied-Lyons	1,300	635	-6
Amstrad	1,000	30½	+1
Anglian Water	699	407	+6
Argos	387	257	+1
Argyll Group	2,200	344	
Arjo Wiggins	2,200	230	+1
Ass. Brit. Foods	273	414	+2
Ass. Brit. Ports	344	342	-2
BAA	502	675	+2
Comm. Union	2,100	498	+1
Cookson	13,000	150	+1
Courtaulds	2,200	571	+5
Dalgety	110	413	+6
De La Rue	430	569	+12
Dixons	986	254	+3
Eastern Elect.	1,800	273	+3
East Midland Elect.	141	301	+6
Eng China Clays	1,600	535	+5
Enterprise Oil	863	403	+3
Eurotunnel Units	458	384	
FKI	1,000	84	
Fisons	3,200	213	+2
Lucas	673	126	-2
MB Caradon	271	267	+4
MEPC	1,000	284	+4
Manweb	376	358	+4
Marks & Spencer	1,400	330	+5½
Midland Bank	7,400	454	+24
Midlands Elect.	234	317	
NFC	270	231	
NatWest Bank	1,800	330	+8
National Power	1,100	238	
Next	757	85	+½
North West Water	500	419	+7
Northern Elect.	1,200	334	+2
Shell Transport	1,800	498	+6
Siebe	440	710	+7
Slough Ests	681	188	-5
Smith (W.H.) A	474	459	-1
Smith & Nephew	4,400	145½	+1½
SmKl Beecham	1,300	879	-1
SmKl Beecham Uts.	178	3918	+10
Smiths Inds.	248	289	+1
Southern Elect.	765	302	+1
South Wales Elect.	309	369	+3
South West Water	123	405	+3
South West. Elect.	150	308	
Southern Water	588	408	+3

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

A SQUEEZE in stock index futures helped the September contract shake off recent gloom and move firmly ahead, writes Joel Kibazo.

Having opened positively at 2,588, the September contract on the FT-SE briefly went into retreat as independent sellers went on the sell tack. But the downward direction did not last long as large institutions that had remained on the side-lines over the last few sessions re-entered the market on the view that it had been oversold.

Except for occasional lulls, September continued forward for the rest of the session at a healthy premium. The contract reached the day's high of 2,609 towards the end of the session. September closed at 2,603, up 21 on the previous session and about 60 points above its estimated fair value premium to cash of about 35. Turnover at 7,231 was, however, unexceptional.

Volume in traded options returned to more modest levels and the day's total reached 37,629 contracts. Turnover in the FT-SE option was a poor 7,180 lots. In stock options, British Steel, which reports results on Monday, was the most heavily traded with a day's total of 3,032.

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Thursday June 25 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Wed Jun 24 Index No.	Tue Jun 23 Index No.	Mon Jun 22 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (178)	840.34	+1.2	6.84	5.48	18.97	16.21	830.76	840.87	840.13	807.25
2 Building Materials (22)	943.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (28)	832.54	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (13)	2537.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (29)	1992.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Engineering-Aerospace (6)	347.20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Engineering-General (44)	525.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (8)	335.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (14)	354.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (19)	1767.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (189)	1638.31	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (24)	2104.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (18)	1252.56	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (16)	2890.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (24)	3860.43	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Hotels and Leisure (20)	1303.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 Media (25)	1555.44	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging, Paper & Printing (17)	801.57	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (33)	1050.83	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (10)	697.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (116)	1266.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Business Services (17)	1419.28	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (22)	2466.26	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (11)	1291.47	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Transport (14)	2577.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Electricity (16)	1319.51	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Telephone Networks (4)	1386.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Water (10)	2788.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (22)	2016.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (483)	1321.99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (17)	2029.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	1389.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (86)	747.12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (9)	954.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (6)	1524.83	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	544.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (10)	857.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (7)	476.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (32)	643.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (15)	249.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (69)	1153.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (655)	1234.78	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE 100 SHARE INDEX♦	2557.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (22). BRITISH FUNDS (1) Treas 9pc '12 A, OTHER FIXED INTEREST (2) Birmingham 11½pc '12, Met Water 3pc B, BREWERS & DISTILLERS (2) Young A, Do N/V, BUILDING MATERIALS (1) Freeman, BUSINESS SERVICES (1) Casket, CONTRACTING & CONSTRUCTION (1) Pochins, ELECTRICITY (1) Southern, ENGINEERING GENERAL (1) Vosper Thornycroft, FOOD RETAILING (1) Shoprite, HEALTH & HOUSEHOLD (1) Assoc Nursing Servs, INSURANCE LIFE (2) [remainder illegible]

LONDON SHARE SERVICE

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
Treas 10½pc 1999		[illegible]	[illegible]	[illegible]	101	[illegible]	9.24
Conversion 10¼pc 1999		[illegible]	[illegible]	[illegible]	100	9.74	9.24
9pc 2000‡‡		[illegible]	[illegible]	[illegible]	94⅝	[illegible]	9.10
9% 2000 C		[illegible]	[illegible]	[illegible]	[illegible]	9.12	9.11
Treas 13pc 2000		119⅝	+¼	121⅛	114	[illegible]	9.45
10pc 2001		104½	+¼	[illegible]	[illegible]	[illegible]	9.21
14pc '98-01		[illegible]	[illegible]	121	115	11.78	9.55
9¾pc 2002		[illegible]	[illegible]	[illegible]	[illegible]	9.41	9.19
9¾p 2002 C		[illegible]	[illegible]	[illegible]	[illegible]	9.42	9.19
10pc 2003		[illegible]	[illegible]	[illegible]	100	9.47	9.18
10pc 2003 B		[illegible]	[illegible]	[illegible]	105	9.47	9.19
Treas 11½pc 2001-04		112	[illegible]	[illegible]	107	10.27	9.43
Funding 3½pc '99-04		[illegible]	[illegible]	[illegible]	59½	[illegible]	7.80
Conversion 9½pc 2004		102½	[illegible]	[illegible]	[illegible]	9.27	9.14
9½pc 2005		[illegible]	[illegible]	[illegible]	[illegible]	9.25	9.13
Treas 12½pc 2003-05		121	[illegible]	124⅝	116	10.26	9.33
8pc 2002-06‡‡		91	[illegible]	[illegible]	85½	8.78	9.11
Over Fifteen Years							
Treas 11¾pc 2003-07		116	[illegible]	[illegible]	110	10.12	9.32
Treas 8½pc 2007‡‡		[illegible]xd	[illegible]	97	89	8.91	9.06
8½pc 2007 A		[illegible]xd	—	97	89	[illegible]	9.05
13½pc '04-08		129¼	[illegible]	132	123	10.44	9.34
9pc 2008‡‡		[illegible]	[illegible]	101	93	[illegible]	9.03
8pc 2009		91⅛	[illegible]	[illegible]	85	8.78	9.02
Conv 9pc Ln 2011‡‡		[illegible]	[illegible]	[illegible]	93	9.01	9.01
9pc 2011 B		[illegible]xd	—	102	93	9.01	8.90
Treas. 9pc 2012		99⅝	[illegible]	102⅛	93	9.01	9.00
9pc 2012 A		34⅞	+½	34⅞	34	—	—
Treas 5½pc 2008-12‡		[illegible]	[illegible]	[illegible]	62⅞	[illegible]	8.87
7¾pc 2012-15‡‡		[illegible]xd	+½	[illegible]	81	8.79	8.97
Exch 12pc '13-'17		127	[illegible]	130	120¼	9.40	9.04
Treas 8¾pc 2017		98	[illegible]	100	97⅛	8.94	8.94
Undated							
Consols 4pc		42xd	+¼	43	39⅞	9.32	—
War Loan 3½pc‡‡		38	+¼	38	35	9.14	—
Conv 3½pc '61 Aft		61	+¼	62	59	5.67	—
Treas 3pc '66 Aft		31¼	[illegible]	32	29	9.46	—
Consols 2½pc		27	[illegible]	27	24	9.24	—
Treas. 2½pc		26⅞	[illegible]	27	24	9.30	—

Index-Linked

	(b)	Price £	+ or -	1992 high	1992 low	(1)	(2)
Treas. 2pc '94	(102.9)	[illegible]	[illegible]	127⅝	122⅛	2.82	4.03
2pc '96	(67.9)	[illegible]	[illegible]	[illegible]	176⅝	3.38	4.03
2½pc '01	(78.3)	147	[illegible]	148	143	4.08	4.42
2½pc '03	(78.8)	[illegible]	[illegible]	144	138	4.12	4.41
2pc '06	(69.5)	[illegible]	[illegible]	147	139	4.16	4.39
2½pc '09	(78.8)	[illegible]	[illegible]	[illegible]	128	4.18	4.39
2½pc '11	(74.6)	[illegible]	[illegible]	[illegible]	129¼	4.18	4.37
2½pc '13	(89.2)	113⅜	[illegible]	114	106	4.18	4.35
2½pc '16	(81.6)	120⅞xd	[illegible]	121	112⅝	4.18	4.32
2½pc '20	(83.0)	116	[illegible]	117⅛	107	4.15	4.29
2½pc '24‡‡	(97.7)	[illegible]	[illegible]	97	88	4.12	4.26
4⅛pc '30‡‡	(135.1)	[illegible]	[illegible]	[illegible]	98	4.08	4.22

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1991: 135.1 and for May 1992: 139.3

OTHER FIXED INTEREST

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
African Dev 11¼ 2010		113	+½	113	105⅞	9.91	9.52
Asian Dev 10¼pc 2009		107¼	+½	109	100	9.56	9.37
B'ham 11½pc 2012		111⅛	+½	111⅛	102¾	10.34	10.18
Ireland Cap 8½pc '10		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
9pc Cap 1996		99½	—¼	99¾	90	9.04	—
13pc '97-02		103⅞	—	115½	103⅞	12.52	—
Hydro Quebec 15pc 2011		138⅞	[illegible]	140	130⅞	10.81	10.29
Leeds 13½pc 2006		122¾	+½	124½	115¼	11.00	10.42
Liverpool 3½pc Irred		32½	—¼	33¼	30	10.77	—
LCC 3pc '20 Aft		30¼	—¼	30¾	27	9.92	—
Manchester 11½pc 2007		109	+¼	110½	103¼	10.55	10.31
Met. Wtr. 3pc 'B'		59½	+¼	59½	53	5.04	8.83
N'wide Anglia 3⅞pc 2021		110¼	—	118½	103¼	—	5.37
4⅛pc IL 2024		118	+¼	118¼	103¼	—	5.11
Utd Mex States 16½pc 2008		123⅞	+¼	126	121½	13.33	12.94

AMERICANS

	Notes	Price £	+ or -	1992 high	1992 low	Mkt Cap£m	Yld Gr's
Abbott Labs	h	15⅛xc	—	19⅛	14⅝	12,832	2.2
ψAllegheny & W.		284p	+4	335p	226p	147.8	5.9
Amdahl		793p	-11	1150p	793p	895.7	0.7
Amer Cyanamid		29	-¼	37	28⅝	2,655	3.2
Amer Express		12½xd	-¼	13⅞	10⅞	5,902	4.5
Amer T & T		22⅛xd	-⅛	24⅞	20⅛	25,400	3.3
Ameritech		34	-¼	36⅞	32½	14,800	5.8
BankAmerica		23⅛xd	-⅜	27⅛	19⅛	7,931	3.2
Bankers NY		25⅜xd	-⅞	37¼	23⅞	2,436	5.3
Bell Atlantic		23⅝	—	28¾	23⅛	10,170	6.2
BellSouth		25	—	29⅛	25	12,664	6.0
ψBethlehem Steel		8⅛xd	+⅛	8⅝	7	629.8	—
Bowater		1090pxd	-2	1578p	1078p	395.7	6.2
CPC	h	24xd	-½	25⅝	22⅞	3,633	2.8
ψCadiz Land Inc		241p	—	342p	168p		—
California Engy		655p	—	835p	635p	115.8	—
Campbell Soup		18⅝	+⅛	23⅜	17⅞	4,687	2.4
Chase Manhattan		14⅛xd	-⅛	15½	9⅛	1,585	4.8
Chrysler		11xd	-⅛	11½	6¼	3,215	3.1
Citicorp		10⅞xd	-⅛	11¼	5⅞	3,765	—
Colgate-Palm		27⅛xd	+⅛	28⅞	25¼	4,316	2.2
Cont'l Bank		580p	-14	1030p	400p	895.5	3.8
Dana		23¼xd	+⅛	24½	14⅞	1,082	3.9
Data General		417p	+24	1004p	388p	115.1	—
ψDecora Inds		95p	—	122p	68p		—
Dial		18⅞xd	—	24⅛	18⅞	757.7	3.3
Don & Brad		29⅞	—	30½	27⅝	5,242	4.4
Exxon		42⅛	-⅜	46½	32½	1,433	2.9
Echlin		10xd	+⅛	11	7⅞	558.5	3.9
FPL		18⅞xd	-⅛	20	18⅛	3,148	7.4
Fluor		21⅛xd	-⅛	27	21	1,712	1.1
Ford Motor		24½	-⅛	26⅞	15	11,877	2.3
Gen Elect		40⅝xd	-⅛	46¼	40⅛	35,105	2.9
ψGeneral Host		429p		556p	350p	—	4.8
Gillette		24⅞xd	+⅛	29⅞	23⅞	5,460	1.6
Hasbro		14⅞	-⅛	18	12⅞	1,282	0.8

BUILDING MATERIALS - Cont.

	Notes	Price	+ or -	1992 high	1992 low	Mkt Cap£m	Yld Gr's
Rosket		92	—	101	61	18.8	6.2
■Rugby		204	+2	238	165	593.3	4.2
Russell (A)		85	-2	100	76	20.6	3.3
‡SWP		4¼	—	8	4½	1.18	16.8
St Gobain FFr		£50	—	£61¾	£41	3,977	3.9
Sharpe & Fisher		87	-1	98	72	19.0	6.1
‡Shaw (A)		67	+1	89	21	4.85	3.0
Sheffield Insuls		101	—	111	70	24.5	7.1
■Spring Ram		150	+2	191	136	500.2	0.2
■Stannis		10½	—	15	10¼	34.8	3.8
■Tarmac		112	-1	181	103	818.5	6.5
‡Titon	†	178	—	179	85	18.1	2.5
■Travis Perkins		171	-2	228	171	173.8	6.2
‡Tudor		35	—	38	31	3.83	1.9
■Unigroup		13	+½	24	8½	3.81	—
Ward Group	‡	69	—	91	62	18.8	‡
‡Waterhouse		41	-2	43	23	1.82	‡
■Wickes		78	+1	104	53	228.0	—
■Wilshaw		15½	—	19¼	6¼	12.2	2.6
■Wolseley		378	—	479	368	893.1	4.3
Worcester	♦	222	—	223	136	66.8	2.5

BUSINESS SERVICES

	Notes	Price	+ or -	1992 high	1992 low	Mkt Cap£m	Yld Gr's
■ADT $		430	-5	533	343	588.1	—
For ASB see Prime People							
‡ATA Select		13	—	14	9	2.07	—
Adam & Harvey	W	238	—	248	198	9.87	5.7
‡Air London	†	110	—	127	110	8.72	3.9
African Lakes		57	—	63	57	3.65	4.7
■Auto'ted Sec		138	—	152	81	155.8	4.7
■BET	q	151	+4	215	106	1,128	5.8
■BNB Res		81	—	108	78	19.5	8.1
BPP		258	+2	283	208	63.3	3.7

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

Authorised by the Inland Revenue

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TEAS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT at 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
● "Tap Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♦ Figures or report awaited
ψ Not officially UK listed; dealings permitted under rule 535(4)(a)
✧ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
§ Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
ϕ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♣ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
r Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1990-91.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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Stewart Ivory Unit Tst Mgrs Ltd (1200)H

Local Authorities Mutual Invest. Tst.*

M & G Securities Ltd

Morgan Grenfell Investment Funds Ltd

Allied Dunbar Assurance Plc

Century Life Plc—Contd.

Equitable Life Assurance Society

Henderson Administration(z)

Life Association of Scotland

NEL Britannia Assce Co Ltd—Contd.

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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	Bid Price	Offer Price	+ or -	Yield Gross
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood, Peterborough PE2 6FY 0733 470470				
Property Dist. (Gross)	135.7	142.9	+0.1	-
Property Acc. (Gross)	258.7	272.3	+0.1	-
Equity (Gross)	877.6	923.8	+0.1	-
Managed (Gross)	613.4	645.7	-0.4	-
Property Acc. (Net)	123.6	130.1		-
Equity (Net)	203.7	214.4	+0.1	-
Adventurous Managed	92.7	97.6	+0.1	-
Managed (Net)	188.6	198.6	-0.1	-
Cautious Managed	95.7	100.7	-0.2	-
International (Net)	159.5	167.9		-
Gilt & Fixed Interest	140.1	147.5	+0.5	-
Money Fund	139.7	147.1		-
Mixed Fund (Cap)	118.4	124.7		-
Mixed Fund (Acc)	122.8	129.3		-
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	665.6	700.7	+0.4	-
Ret Man (Series 2)	225.7	237.6	+0.1	-
Ret Cash	196.9	207.3	+0.1	-
Pens Mixed Fd (Cap)	131.4	138.4		-
Pens Mixed Fd (Acc)	136.3	143.5		-
Pens Stlg Fd (Cap)	103.4	108.9		-
Pens Stlg Fd (Acc)	107.3	113.0		-
Pegasus Assurance Ltd				
Broad Quay, Bristol BS1 4DJ 0272 230271				
Life Funds				
Managed Aggressive	102.8	108.2	+0.1	-
Managed Balanced	99.7	104.9		-
Managed Cautious	111.7	117.6	-0.1	-
Pension Funds				
Managed Aggressive	107.7	113.4	+0.2	-
Managed Balance	104.8	110.4	+0.1	-
Managed Cautious	115.4	121.5	-0.1	-

For Pioneer Mutual see Swiss Pioneer

	Bid Price	Offer Price	+ or -	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	133.0	140.0		-
Building Soc. Fd	223.0	235.0		-
Balanced	274.0	289.0		-
European	207.0	218.0		-
GT Managed	185.0	195.0		-
Gartmore Mngd	122.0	129.0		-
German	135.0	143.0		-
Gilt	179.0	189.0		-
Global	40.0	43.0		-

	Bid Price	Offer Price	+ or -	Yield Gross
Provident Mutual Life Assc. Assn.—Contd.				
Index Linked Gilt Init.	128.0	134.7		
Overseas Equity Ord	257.4	270.9		
Overseas Equity Init.	187.9	197.8		
Property Ord	222.3	234.0		
Property Init.	162.2	170.7		
Fixed Interest Ord.	227.7	239.7		
Fixed Interest Init.	166.2	174.9		
Deposit Ord.	186.9	196.7		
Deposit Init.	136.4	143.6		
Pension Funds				
Managed Ord	459.1	483.3		
Managed Init.	335.1	352.7		
Equity Ord	712.3	749.8		
Equity Init.	519.9	547.3		
Pen Ind Lnd Gilt Ord.	189.5	199.5		
Pen Ind Lnd Gilt Init.	144.4	152.0		
Overseas Equity Ord.	291.5	306.8		
Overseas Equity Init.	212.8	224.0		
Property Ord.	280.1	294.8		
Property Init.	204.5	215.3		
Fixed Interest Ord.	289.9	305.2		
Fixed Interest Init.	211.6	222.7		
Deposit Ord.	268.3	282.4		
Deposit Init.	195.9	206.2		
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH				
Prufund				
Managed Jun 24	259.7	270.6		
Prudential Corporate Pension Funds				
1 Stephen St, London W1P 2AP				
Prudential Managed Funds				
Discretionary Jun 25	£187.13	192.93		
Equity Jun 25	£217.34	224.76		
International Jun 25	£26.18	26.74		
Intl Bond Jun 25	£14.13	14.92		
Fixed Int. Jun 25	£105.16	106.35		
Index Linked Jun 25	£77.17	78.15		
Property Jun 25	£109.76	115.75		
Cash Jun 25	£30.7583	30.7583		
Pre-Linked Retirement Plan				
Managed Jun 23	447.9	466.4		
Cash Jun 23	282.3	294.1		
Prudential Pensions Investment Account				
Pens Mngd Jun 24	179.2	192.8		
Pens UK Eq Jun 24	320.6	345.8		

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Pressure on dollar maintained

PRESSURE on the dollar continued as rumours swept the foreign exchange markets that official moves were afoot to sell it and support the yen, *writes Peter John.*

The dollar was already weak in the morning as it languished under continuing pressure from worse than expected US durable goods figures announced on Wednesday.

There was some potential support for on news announced mid-morning that first quarter GDP figures in the US were better than the market had forecast. However, there was no significant response.

Then, in the afternoon, speculation grew that the Bank of Japan (BoJ) was intervening to support its currency by selling dollars and buying yen. This was compounded later by talk that the Federal Reserve was checking yen dollar rates, a psychological move whereby the Fed rings up dealers to ask for rates and consequently gives the impression that it is contemplating an intervention.

In most cases the checking acts as support for the dollar but yesterday's rumoured move was suggested to be a possible support for the yen at the request of the BoJ.

The rumours were largely discounted but they sent the US currency tumbling by more than a yen to Y125.40 in a highly sensitive market.

Mr Michael Feeny, a market analyst with the Sumitomo bank in London commented: "The dollar is more susceptible to news providing downward pressure than upward pressure."

The US currency was also weaker against the D-Mark falling by a pfennig to DM1.542. The D-Mark has been held up by higher than anticipated Money supply growth figures earlier in the week. The high M3 figure for May was not counteracted yesterday by hints that German inflation was easing and the Bundesbank indicated that it had no intention of cutting interest rates in the near future.

US investment bank Merrill Lynch argues that the dollar will continue weak against the D-Mark. The bank says that its most recent global investor survey reveals that international investors are "actually moderately overweight the dollar and underweight the yen and D-Mark."

The pound was up sharply on the dollar at midsession and even contrived to firm on the D-Mark despite the continuing flow of funds out of the US unit. Traders said such flows usually benefit the D-Mark at the expense of sterling but there had been such solid support at DM2.9130 in recent days that the market had temporarily given up on the downside.

Meanwhile, Hungary will launch its long-awaited interbank foreign exchange market on July 1, the Hungarian central bank announced yesterday, giving the market more power to set the forint's value.

£ IN NEW YORK

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

EMS EUROPEAN CURRENCY UNIT RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

FINANCIAL FUTURES AND OPTIONS

BASE LENDING RATES

MONEY MARKETS

Overnight rate rises

HIGH shortages returned to *the money markets yesterday* and held throughout the dealing session prompting a squeeze in overnight rates.

Dealers said the shortage, initially forecast at about £1.4bn and later adjusted down to around £1.25bn held because a number of clearing banks, which *had already* balanced their books for the half year were unprepared to deal with the Bank of England and be forced to readjust their accounts.

The shortfall was significantly higher than the previcus days's figure of £150m and when *dealing* opened the Bank of England invited an early round of bill offers.

UK clearing bank base lending rate
10 per cent
from May 5, 1992

However the clearers were unwilling to enter the market and, at the first round, the Bank of England was only able to buy bills worth a total of £145m. The stand-off persisted and *at the second round only* £139m worth of bills were exchanged. Although *there* was some improvement in the afternoon, with the Bank buying £423m worth of bills, it had to provide late assistance worth £415m at the customary undeclared interest rate *shortly before the close at* 3.00pm. This brought the total help for the day to £1.132bn compared with the latest forecast of a £1.25bn liquidity shortage.

The pressure of the continuing shortage was particularly evident on overnight money rates which were pushed up to 13 per cent at *one stage before easing to* close around 10½ per cent. One-month rates ended steady at 10¼ per cent and the key three-month rate closed firm at 10⅛ per cent.

On short sterling futures, the September contract moved within a narrow range to close marginally easier at 90.17 with just over 7,040 lots traded.

● In Paris, the Bank of France left its intervention rate unchanged at 9.6 per cent at a securities repurchase tender held yesterday to allocate funds for injection into the money market today. It accepted bids for FFr11.5bn in new liquidity, FFr18.5bn less than the FFr30.0bn leaving the market today when a previous pact expires.

The intervention rate was last changed on December 23, when it was raised by 35 basis points. The central bank said it drained funds because it expects bank liquidity to increase as a result of Treasury operations next week.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

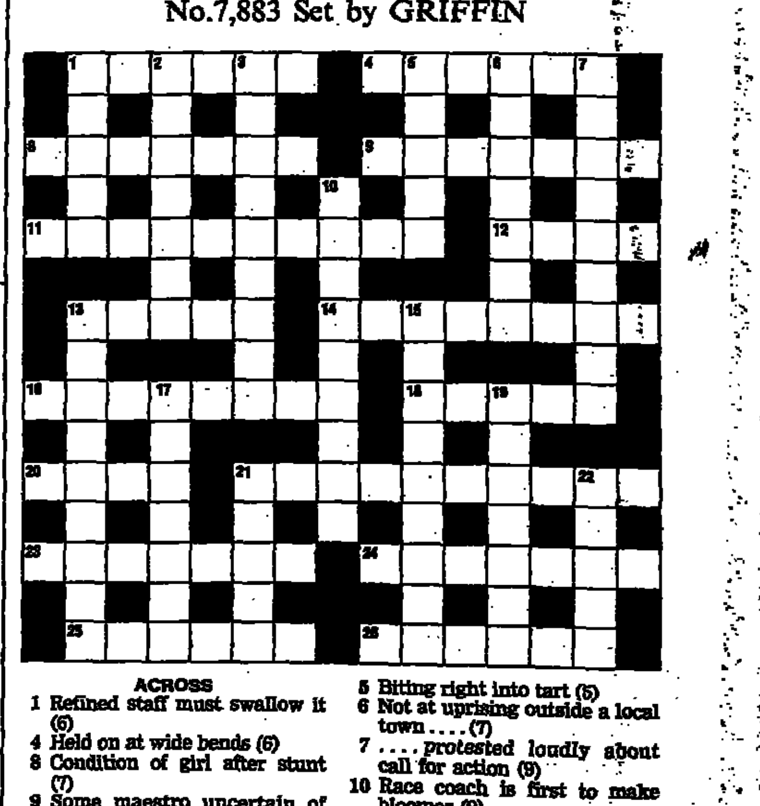
MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.7,883 Set by GRIFFIN



ACROSS

1 Refined staff must swallow it (6)
4 Held on at wide bends (6)
8 Condition of girl after stunt (7)
9 Some maestro uncertain of beat (7)
11 Split beer of workman earlier (10)
12 Back street artist returned with emperor (4)
13 Upset if gun rusts, perhaps (5)
14 Substitute handle? (8)
16 Begged Hugo to stir in cream (8)
18 Trained to help me in (5)
20 Brute shot retreating soldiers (4)
21 Cutting down fat? (10)
23 Female friend ringing home at last (7)
24 Custodian arranged RAC tour (7)
25 Arrive at Holyhead, in shun area (6)
26 Elizabeth always backs respect (6)

DOWN

1 Bit man on board (6)
2 Pupil we don't fancy shows disappointment (7)
3 Get entire contraption moving unsteadily (9)
5 Biting right into tart (5)
6 Not at uprising outside a local town.... (7)
7 .... protested loudly about call for action (9)
10 Race coach is first to make bloomer (9)
15 Inexperienced youth ran off with Heather around midnight (9)
17 Surgeons do this work (7)
19 Ordinary upstanding miners end a revolution (7)
21 Halve gratuities with student in lift (5)
22 Snare making one so well (5)

Solution to Puzzle No.7,882

مطابقة للأصل

WORLD STOCK MARKETS

CANADA

TORONTO

3:00 pm prices June 25

MONTREAL

3:00 pm prices June 25

Total Sales 12,307,700 shares

INDICES

NEW YORK

DOW JONES	Jun 24	Jun 23	Jun 22	Jun 19	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3290.70	3285.62	3280.80	3285.35	3413.21 (1/6)	87.76 (18/6)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	99.91	99.98	99.88	100.15	100.17 (19/5)	98.41 (20/3)	100.17 (19/5/92)	54.99 (1/10/81)
Transport	1293.54	1288.30	1295.03	1309.44	1467.68 (20/2)	1288.30 (23/6)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	211.50	213.07	212.63	213.51	225.99 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3317.72 (3312.10) Low 3262.08 (3263.42)

STANDARD AND POOR'S

Composite ‡	403.84	404.04	403.40	403.67	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	475.92	476.14	475.57	475.78	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	34.63	34.57	34.21	34.31	35.80 (13/5)	32.40 (8/4)	35.80 (13/5/92)	8.64 (1/10/74)
NYSE Composite	221.81	221.99	221.56	221.96	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	374.20	376.74	375.62	379.39	418.99 (12/2)	374.20 (24/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	551.39	553.36	549.73	554.20	644.92 (12/2)	549.17 (18/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 19	Jun 12	Jun 5	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.03	2.99	3.07

	Jun 17	Jun 10	Jun 3	year ago (approx.)
S & P Industrial div. yield	2.72	2.69	2.63	2.74
S & P Indl. P/E ratio	28.03	28.44	28.96	19.24

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
RJR Nabisco	4,669,700	9⅛	- ⅛
Philip Morris	9,641,900	73⅛	+ ⅝
Telefonos	4,911,600	42⅛	- 1⅞
Con Edison	2,372,500	28	+ ⅛
Syntex	2,276,300	33	- 1⅛
IBM	2,118,400	97⅝	+ 1⅛
Computer Assoc	1,988,800	11⅞	- ⅞
Stride-Rite	1,922,100	20⅛	- 4⅝
Merck	1,839,800	48⅛	- 1⅛
Amer Brand	1,488,300	45⅛	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Jun 24	Jun 23	Jun 22
New York SE	193.850	189.170	169.340
Amex	10.379	11.339	9.226
NASDAQ	152.330	165.669	151.192
NYSE			
Issues Traded	2,257	2,282	2,271
Rises	867	990	603
Falls	820	732	1,143
Unchanged	570	560	525
New Highs	30	20	22
New Lows	49	42	75

CANADA

TORONTO	Jun 24	Jun 23	Jun 22	Jun 19	1992 HIGH	1992 LOW
Metals & Minerals	3101.83	3095.19	3095.46	3101.27	3238.87 (16/1)	2828.26 (8/4)
Composite	3339.64	3343.00	3340.66	3350.89	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	(c)	1763.30	1758.26	1760.97	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jun 25	Jun 24	Jun 23	Jun 22	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1644.6	1647.6	1643.9	1636.3	1684.50 (22/5)	1545.30 (9/4)
All Mining (1/1/80)	717.5	717.5	713.7	708.5	717.50 (24/6)	660.30 (2/1)
AUSTRIA						
Credit Aktien (30/12/84)	390.81	392.07	394.48	396.69	458.57 (24/2)	372.24 (2/1)
Traded Index (2/1/91)	945.50	953.07	956.63	959.49	1099.43 (24/2)	901.64 (2/1)
BELGIUM						
BEL20 (1/1/91)	1172.69	1171.47	1173.48	1172.45	1235.40 (2/6)	1097.23 (8/1)
DENMARK						
Copenhagen SE (3/1/83)	321.66	320.82	316.58	316.93	365.29 (15/1)	316.58 (23/6)
FINLAND						
HEX General (28/12/90)	766.5	769.1	768.9	758.6	935.90 (24/2)	758.60 (22/6)
FRANCE						
CAC General (31/12/82)	518.43	518.68	517.25	516.74	555.93 (12/5)	475.53 (2/1)
CAC 40 (31/12/87)	1920.34	1899.64	1895.8	1885.77	2077.49 (11/5)	1749.91 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	701.05	702.19	704.87	704.12	725.26 (26/5)	643.26 (8/1)
Commerzbank (1/12/53)	1982.30	1985.40	1992.8	1990.70	2043.80 (25/5)	1813.80 (8/1)
DAX (30/12/87)	1764.89	1768.49	1771.14	1770.64	1811.57 (25/5)	1578.73 (8/1)
HONG KONG						
Hang Seng Bank (31/7/64)	6078.69	5965.21	5897.86	5819.94	6082.70 (27/5)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1334.95	1337.01	1342.32	1352.28	1469.57 (17/1)	1334.95 (25/6)
ITALY						
Banca Com. Ital. (1972)	466.21	468.99	472.69	474.57	551.59 (6/2)	466.21 (25/6)
MIB General (2/1/92)	918.0	923.0	931.0	934.0	1086.00 (5/2)	918.00 (25/6)
JAPAN						
Nikkei (16/5/49)	16143.72	15853.67	16106.99	15921.22	23801.18 (6/1)	15853.67 (24/6)
Tokyo SE (Topix) (4/1/68)	1248.50	1233.37	1247.21	1240.18	1763.43 (6/1)	1196.19 (9/4)
2nd Section (4/1/68)	1890.57	1887.81	1903.05	1919.21	2459.85 (6/1)	1887.81 (24/6)
MALAYSIA						
KLSE Composite (4/4/86)	598.60	594.00	593.52	594.05	619.06 (20/2)	546.63 (14/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	303.6	302.6	304.6	304.0	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	207.4	206.8	208.2	207.7	215.50 (26/5)	192.40 (8/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	706.81	712.88	718.88	706.92	772.74 (18/5)	667.88 (25/2)
PHILIPPINES						
Manila Comp (2/1/85)	1477.90	1477.57	1453.86	1519.54	1580.95 (11/6)	1083.01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	403.88	402.39	403.50	403.07	416.99 (21/1)	370.13 (9/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1116.0ß	1121.0	1136.0	1143.0	1327.00 (21/1)	1006.00 (24/4)
JSE Industrial (28/9/78)	4501.0ß	4474.0	4463.0	4470.0	4689.00 (4/6)	4169.00 (2/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	548.30	551.99	559.99	558.32	691.48 (8/2)	548.30 (25/6)
SPAIN						
Madrid SE (30/12/85)	241.73	239.99	243.70	246.41	266.51 (28/2)	238.93 (2/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	926.90	930.20	926.4	924.7	1014.50 (11/5)	913.70 (2/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	862.0	857.8	858.7	855.2	883.40 (11/5)	748.50 (8/1)
SBC General (1/4/87)	648.3	646.8	650.2	649.4	682.30 (11/5)	601.10 (8/1)
TAIWAN**						
Weighted Price (30/6/66)	4565.01	4655.08	4690.48	4697.66	5391.63 (30/1)	4268.17 (11/5)
THAILAND						
Bangok SET (30/4/75)	756.98	754.75	752.30	756.29	832.39 (7/4)	667.84 (19/5)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	495.2*	489.9	491.7	489.3	542.10 (7/1)	467.50 (8/4)
Euro Top-100 (26/6/90)	923.11	921.21	925.58	925.61	976.55 (29/5)	870.31 (2/1)

**Saturday June 20: Taiwan Weighted Price: 4618.02, Korea Comp Ex 565.29

*Calculated at 15.00 GMT.

ß Subject to official recalculation.

Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 25 Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Thursday 25 June 1992

	Stocks Traded	Closing Prices	Change on day
Meiji Milk Prod	8.0	981	-
Toshiba Corp	6.4	633	-39
Daikyo Kanko	3.8	730	+50
Okamoto Inds	3.4	1,200	+30
Hitachi	3.0	766	+10
Morinaga Milk	2.8	818	+12
Chiyoda Corp	2.6	1,740	+20
NPN Formula	2.4	834	+33
NEC Corporation	2.4	825	+10
NPN Steel Corp	2.3	265	+4

3:00 pm prices June 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11⅞	AAR Corp	0.48	3.8	19	698	12⅞	12¼	12⅞	+⅛
28	18¼	A L Labs A x	0.18	1.0	72	145	18¼	d18⅛	18⅛	-¼
68¼	56	AMP Inc	1.52	2.7	22	3349	57⅞	d55½	55½	-2¼
80¼	60⅞	AMR				1663891	64¼	63⅝	63⅝	-¼
2⅞	1⅜	ARX			2	55	1⅝	1⅝	1⅝	-⅛
53½	39⅝	ASA	2.50	6.4		252517	40⅜	d38¼	39	-⅞
34¼	25⅛	Abbott Lab	0.60	2.1		209514	28½	28	28	-⅝
13⅞	12	Abitibi Pr	0.50	3.8		9z100	12⅞	12⅞	13	
11⅝	10⅛	ACM Gvt In	1.13	10.2		175	11⅛	10⅞	11⅛	+⅛
10⅞	9⅛	ACM GvOpp	0.96	10.0		6	9⅜	9⅝	9⅝	-⅛
9½	8½	ACM Gvt Sp	0.92	10.1		147	9⅜	9⅛	9⅛	-⅛
11¼	10⅛	ACM Gvt Sc x	1.13	10.5		258	10⅞	10⅝	10¾	+⅛
9⅝	8⅝	ACM Man	0.98	10.4		121	9½	9⅜	9⅜	
12⅞	10⅝	ACM Managd	1.24	10.9		227	11½	11⅜	11⅜	
11⅞	6⅜	Acme Cleve	0.40	5.7	24	204	7⅜	7	7	-⅜
6¼	4⅜	Acme Elect				4z100	4⅝	4⅝	4⅝	
33¼	18⅞	Acuson			12	215	20½	20⅛	20⅛	-⅛
19½	18⅛	Adams Expr	1.63	8.8	0	55	18⅝	18½	18½	-⅛
48⅛	28½	Ad Micro	3.00	9.7		358	31	30⅝	30⅞	+⅛
21½	8⅞	Ad Micro P	3.00	34.3		34607	8⅞	d8⅝	8¾	
9⅛	5	Advest Grp	0.16	2.6	61	65	6⅛	6⅛	6⅛	+⅛
36	33	Aegon ADR	1.68	4.9	5	7	34¾	34½	34½	
47	38⅜	Aetna Li	2.76	6.5		81606	42⅝	41⅞	42¼	+½
12	6⅞	Ahll A	0.24	2.4	11	479	10⅛	10⅛	10⅛	-⅛
32⅞	24	Aflac	0.44	1.5		151193	29⅜	28⅞	29	-⅛
19⅞	15⅛	Ahmanson	0.88	5.7		71152	15⅞	15⅜	15½	-⅜
22½	6¼	Aileen Inc			7	130	8⅛	7⅜	7¾	-¼
49½	36½	Air Pr Chm	0.86	2.0		181148	42½	41	42⅜	+1¼
29¼	13⅞	Airbne Frt	0.30	2.1	11	916	14⅝	d13⅞	14⅛	-⅛
34¼	22⅛	Airgas Inc			27	135	30⅛	29½	29½	-½
12⅞	8⅛	Airlease x	1.68	14.9	8	50	11½	11⅛	11¼	-⅛
104	99½	AlaPw8.16	8.16	8.1		3	100½	100½	100½	
25⅛	21⅞	AlaPw PfA	2.00	8.0		11	u25⅛	25⅛	25⅛	
107	102½	AlaPw9.44	9.44	9.0		z100	102½	d102½	105	+2½

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High
33⅞	28⅜	BRE Prop	2.40	8.1	20	61	29⅝
54¾	41¼	Briggs & S	1.60	3.6	13	101	46⅛
41¼	29⅞	Brinkerint			29	133	31⅞
90⅛	62⅛	Bristol M	2.76	4.2		162366	66½
57½	39½	Brit Airwy	2.08	3.9		61221	52¾
49½	40¼	Brit Gas	3.75	8.2	11	8	45⅞
68⅜	50¾	BP ADR	4.04	8.3		552469	56
31⅞	27⅞	BP Prudhoe	3.24	10.6	7	310	30
1⅞	⅛	BP Wts93				1226	⅛
15⅞	11⅛	Brit Steel	1.67	12.2	8	249	13⅞
86¼	53⅞	Brit Tel	4.48	7.1		101047	63½
21	15⅜	Broad Inc	0.20	1.3	10	778	15¾
33	26⅞	BrknPld	2.47	9.1		3	27½
31¾	28	Brooklyn U	1.94	6.1	12	42	u31¾
90	72	BrwnFormnB	2.44	3.1	14	52	78⅛
28¾	21	Brown Grp	1.60	7.3	42	216	22
10½	5¾	Brown&Shrp	0.32	5.1	34	141	6⅝
24⅞	19⅝	Brwnng F x	0.68	3.2		173659	21
3⅞	1⅞	BRT				1	13	2
17¾	13⅝	Brunswick	0.44	3.0		471664	14⅝
19	12⅞	Brush Well	0.20	1.2	9	41	16⅛
28⅞	25⅞	Buckeye Pt	2.60	9.4	10	51	27⅞
16⅞	15⅛	Bunker Hll x	1.56	9.8	0	8	16⅛
14½	11⅞	Burger K I	1.58	11.1	19	15	14
25⅞	16½	Burl Coat			9	134	18⅞
47⅞	36	Burl North	1.20	3.2		122842	37½
42⅞	33	Burlh Resc	0.70	1.9		261222	39⅝
18	14⅝	Burnham Pc x	1.36	8.5	48	44	16

- C -

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High
37½	30¾	CBI Ind	0.48	1.5	20	746	32½
209¾	132¼	CBS Inc	1.00	0.6	32	295	196¼
1⅝	⅞	CCX Inc			3	3	⅞

Continued on next page

هكذا صنع بالأصل

NYSE COMPOSITE PRICES

continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
28½	24⅞	Xtra 1.94	1.94	7.1		4	27⅛	26¾	27⅛	−⅛
37	28½	Xtra Corp	0.80	2.4	12	83	33½	33¼	33½	+⅛
27	25¼	Yankee Egy	1.68	6.4	11	8	26	25⅞	26	+⅛
1½	½	Zapata			48	7	⅞	⅞	⅞	+1/16
11¼	6¾	ZenithElec			3	610	7⅝	7¼	7⅜	
18⅞	14½	Zenith Nat	1.00	5.8	8	161	17⅞	17⅝	17¼	−⅛
7⅛	6	Zenix Inc x	0.82	11.9		170	6⅞	6⅝	6⅞	+⅛
13⅜	10⅞	Zero Corp	0.40	3.7	17	180	11⅛	d10⅞	10⅞	−⅛
38	28	Zurn Ind x	0.88	3.1	31	245	28⅝	28½	28⅝	−¼
14⅛	12	Zweig Fund	1.15	9.5		188	12⅛	12⅛	12⅛	−⅛
11	9½	Zweig Totl	1.00	10.2		697	9⅞	9¾	9⅞	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

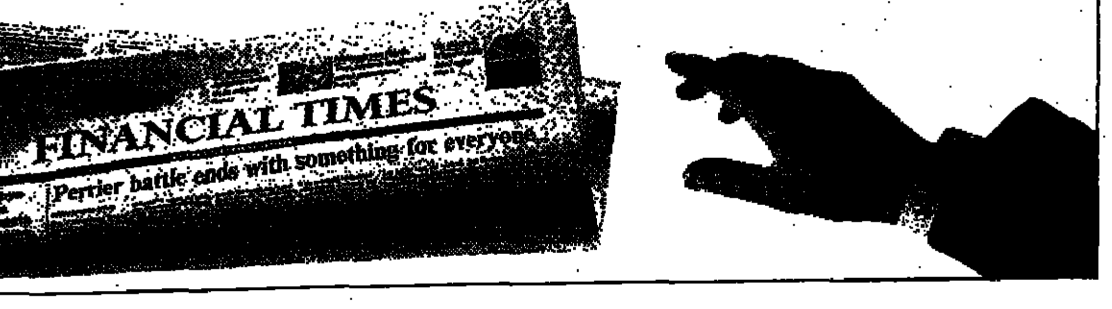
AMEX COMPOSITE PRICES

3:00 pm prices June 25

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pall Corp	0.36	26	1021	25¾	25½	25½	+⅛
Pegasus G	0.10	36	1085	u14⅛	13¾	14	+⅛
Perini	0.80	27	7	13	13	12¾	
Pet Hl&P	1.14	16	41	14⅝	14¼	14½	+⅛
Phil LD	0.24	15	1644	36⅞	35¾	36⅞	+1¼
Pittway A	1.10	15	6	28½	28½	28¼	
Ply Gem	0.12	23	21	11½	11⅜	11½	+⅛

NASDAQ NATIONAL MARKET

3:00 pm prices June 25



AMERICA

Dow loses early gains despite rate cut hopes

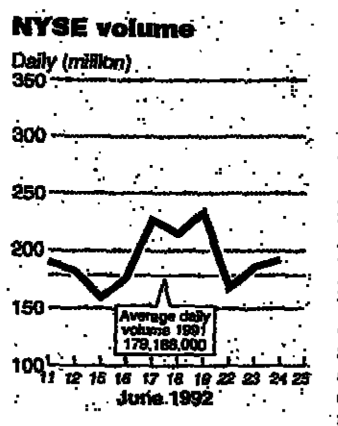
Wall Street

US share prices edged lower at midsession, although the latest economic news had earlier raised investors' hopes of another interest rate cut, *writes Patrick Harverson in New York.*

By 1pm the Dow Jones Industrial Average was down 2.14 at 3,288.56 after a 14-point gain at one stage. The more broadly based Standard & Poor's 500 was up 0.40 at 404.23, while the Nasdaq composite index rose 0.27 to 328.08. Turnover on the New York SE was 101.3m shares by 1pm.

Prices received an early boost from the news that initial claims for state unemployment insurance rose by 16,000 in the week ended June 13. Analysts had been expecting a modest decline in jobless claims, and the figures increased the chances that the Federal Reserve might cut interest rates one more time to boost economic activity.

Although the Commerce Department also announced an upward revision in the first quarter gross domestic product numbers, up from an originally estimated 2.4 per cent growth to 2.7 per cent, the figures did not dampen hopes for a policy ease. Moreover, economists now believe that second quarter GDP growth will come in below 2 per cent, which could be weak enough to trigger an interest rate cut.



Among individual stocks, tobacco companies remained heavily traded in the wake of Wednesday's historic ruling by the Supreme Court allowing smokers to use state injury laws to sue cigarette manufacturers. RJR Nabisco fell $¼ to $9¼ and Philip Morris lost $⅝ at $73.

Delta Air Lines was down $⅝ at $53⅝ in busy trading in the wake of a $1bn issue of new convertible preferred stock priced on Wednesday night at $50, with a 21.76 per cent conversion premium.

International Paper rose $⅝ to $69¾ on a recommendation from the broking house, Bear Stearns. Emerson Radio rose $⅜ to $2⅜ on the news that the company had settled its litigation with Fidenas Investment. The settlement means that Fidenas's nominees will not be opposed by Emerson at its annual meeting in July.

On the Nasdaq market, Lotus Development plunged $4¾ to $19¼ in turnover of 2.3m shares after the company warned that it expected to report second quarter earnings between 30 cents a share and 40 cents a share, well below analysts' expectations. The company blamed slower-than-expected spreadsheet sales for the disappointing earnings.

T2 Medical dropped $6¼ to $20¼ after a grand jury, which is investigating possible conflicts of interest among doctors who refer patients to lab facilities in which the doctors have a financial stake, requested certain documents from the company.

Canada

TORONTO traded in a narrow range to emerge slightly higher at midday, the TSE 300 composite index rising 6.9 to 3,346.9. Advances edged declines by 210 to 206 in volume of 23.7m shares valued at C$226m.

The oil sector fell on weakness in light crude oil futures and technical analysts' views of further weakness ahead.

EUROPE

Milan hits low on public sector deficit

BOURSES gave a mixed performance yesterday, the mixture partly reflecting a better start on Wall Street, *writes Our Markets Staff.*

MILAN fell to a new 1992 low in thin trading on news that the public sector deficit widened by 28 per cent in the first four months of this year. Delays in forming a government, and fears of new property and wealth taxes to help plug the deficit also depressed shares. The Comit index fell 2.78 to 466.21 in turnover estimated at near Wednesday's L64.9bn.

The state telecommunications holding company, Stet, slipped L40 to L1,750 following Wednesday's news of that plans to reorganise the sector had been postponed until the government was formed. The tax fears took L100 off Generali to L28,390 while Fondiaria fell L793 to L27,697.

PARIS was lifted by a firm opening on Wall Street but volume was generated by big block trades in BSN, Lyonnaise des Eaux and Generale des Eaux. The CAC 40 index rose 20.70 to 1,920.34, in turnover of FFr2.5bn.

FT-SE Eurotrack 100 - Jun 25

Hourly changes

Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1148.60	1148.47	1147.90	1146.42	1146.33	1147.95	1149.10	1148.67

Day's High 1149.57 Day's Low 1145.72

Jun 24	Jun 23	Jun 22	Jun 19	Jun 18
1145.09	1148.49	1149.77	1154.66	1145.88‡

Base value 1000 (26/10/90). ‡ Partial.

Generale des Eaux ended up FFr9 at FFr3,199 after 125,000 shares were traded at FFr2,205. A block of 140,000 shares in BSN was crossed at FFr1,101, and the stock closed up FFr6 at FFr1,096. Lyonnaise des Eaux, which saw 150,000 shares traded, rose FFr11 to FFr529. A block of 153,000 shares in Pinault was also crossed, at FFr373, as the stock closed up FFr1.50 at FFr373.50.

Michelin rose FFr7 or 3.5 per cent to FFr209.7 ahead of its annual meeting today.

AMSTERDAM was pulled both ways by the higher oil price and weaker dollar. The CBS Tendency index finally closed up 0.1 at 124.7.

Royal Dutch gained on the oil price, up 50 cents at Fl 152.90 while Ahold, which has large exposure to the US, was among the losers, down Fl 1.10 at Fl 83.50.

Reports of lower CD sales was to blame for the 20 cents loss in Polygram which finished at Fl 49.30. Philips was stronger, rising 50 cents to Fl 31.10 while DAF shed 50 cents to Fl 22.50. Some analysts remain positive on the truckmaker's 1992 prospects, expecting a substantial increase in its UK sales.

FRANKFURT eased in slightly higher volume as the market extended Wednesday's after-hours drop in Daimler. The stock dropped a net DM12 to DM770.50 yesterday, but this partly reflected its drop to DM776.70 late on Wednesday, down from an official close of DM795.50, as it went ex dividend of DM13.

Turnover rose from DM4.6bn to DM5.2bn as the FAZ fell 1.14 to 710.05 at midsession and the DAX by 3.60 to 1,764.89 at the close.

Porsche lost some of its recent gains with a fall of DM6 to DM587 and Volkswagen, one of Europe's best performing blue chips this year, closed DM3.80 lower at DM398.20.

Harpener fell DM23 to DM276 on VEW's purchase of a controlling stake. Schmalbach-Lubeca, the recently ebullient Viag packaging subsidiary, hit a sour note after Wednesday's news that 1992 was proving more difficult; the shares fell DM48 to DM499, although Viag rose DM1.30 to DM404.70.

MADRID staged a late rally having sunk during the session to its lowest level this year. The general index closed 1.74 stronger at 241.73 in volume of some Pta18bn.

Telefónica, which has been losing ground all week following fresh problems in its pension fund talks with unions, closed up Pta15 at Pta1,040. In banking, Popular climbed Pta70 to Pta11,000 while Santander gained Pta90 to Pta4,550.

STOCKHOLM fell back again, the Affärsvärlden general index easing 3.3 to 926.9 in low turnover of SKr196m. Astra fell SKr3 to SKr517 and SKF dropped SKr2 to SKr113.

VIENNA fell to its lowest level for seven weeks on publication of data which showed a rise in monthly inflation. The ATX index lost 7.50 to 949.50 with some analysts saying that hopes for an early cut in interest rates had receded. The textile maker, Lenzing, fell Sch39 or 4.2 per cent to Sch888.

ISTANBUL closed at a four-month high on news that parliament had approved a tax reform measure. The 75-share index rose to an intraday high of 4,313 before falling back slightly, closing up 309.18 or 7.7 per cent at 4,291.71.

The measure provides a five-year tax exemption to pension funds and life insurance companies on capital gains from trading in stocks and mutual funds.

Cukurova Elektrik gained TL500 to TL6,400.

ASIA PACIFIC

Nikkei regains 16,000 level on late buying

Tokyo

LAST-MINUTE buying by a leading Japanese broker helped the Nikkei index recover to above the 16,000 mark yesterday, after falling to its lowest level since October 1986 on Wednesday, *writes Emiko Terazono in Tokyo.*

The 225-issue average finished 290.05 firmer at 16,143.72. It registered a day's low of 15,733.14 in early trading on encountering selling by individuals and companies, and rebounded on small-lot buying by foreigners and institutions to reach a high of 16,217.88 in the afternoon.

Volume picked up to 250m shares from 227m, traders noting US demand. Advances outnumbered declines by 576 to 366, with 164 issues unchanged. The Topix index of all first section stocks improved 15.13 to 1,248.50, but in London the ISE/Nikkei 50 index ended 2.37 easier at 982.14.

Lower interest rates encouraged investors. Bonds rallied, with the yield on the number 129 10-year issue falling from 5.35 to 5.335 per cent. Money market participants also anticipated lower short-term rates, as the three-month certificates of deposit rate eased to 4.5 per cent from 4.52 per cent.

Traders said an absence of arbitrage selling also supported the Nikkei. However, some sceptics argued that Japanese brokers were pushing up equity prices ahead of today's spate of shareholders' meetings. More than 1,800 companies will hold shareholders' meetings today.

High-technology issues were sought by foreign investors. Toshiba surged ahead Y39 to Y633 and Sony Y220 to Y4,250. Other blue chips were also sought, with Nippon Steel gaining Y4 to Y265 and Nissan Motor Y23 to Y558.

Bank issues rose on bargain hunting, with Industrial Bank of Japan putting on Y70 to Y1,550 and Fuji Bank Y20 to Y1,230. Trust banks, on the other hand, thought to be facing a rise in bad loans due to extensive lending to real estate companies, were weaker. Mitsui Trust and Banking declined Y15 to Y630 and Sumitomo Trust and Banking Y5 to Y815.

Misawa Homes plunged by its daily limit of Y210 to Y940. The stock has lost 35 per cent in the past 10 days on rumours of growing debts at the company's resort and golf course development subsidiaries.

NTT fell Y10,000 to an all-time low of Y581,000. "With over 1.6m individual investors, the plunge in NTT will definitely harm sentiment," said a broker.

In Osaka, the OSE average moved forward 110.26 to 18,937.12 in volume of 22.3m shares.

Roundup

THE strongest feature among Pacific Rim markets yesterday was Hong Kong, while Seoul continued to decline.

HONG KONG closed sharply higher, with the Hang Seng index ahead 113.48, or 1.9 per cent, at 6,078.69. Turnover came to HK$4.9bn.

Banks led the way, with HSBC Holdings rising HK$1.50 to HK$47.25 ahead of yesterday's close of its bid for Midland Bank, of the UK. Hang Seng Bank climbed HK$2.25 to HK$49.75, Wing Lung HK$2.50 to HK$62.00 and Bank of East Asia HK$1.25 to HK$35.

SEOUL set another 4½-year low in spite of intervention by the stabilisation fund. The composite index shed 3.69 to 548.30 in turnover of Won167bn. Falls outpaced rises by 592 to 132.

TAIWAN closed sharply lower on profit-taking and the weighted index lost 90.07, or 1.9 per cent, to 4,565.01. The financial sector fell 3.3 per cent. Turnover decreased to T$35.6bn from T$41.3bn.

SINGAPORE had blue chips in demand. The Straits Times Industrial index added 12.64 at 1,501.35.

The shipyard sector was active, with Sembawang Shipyard up 25 cents at S$7.95 and Jurong Shipyard gaining 15 cents to S$9.20.

KUALA LUMPUR's composite index put on 4.60 to 598.60, but Amalgamated Steel Mills slipped 8 cents to M$2.76 after announcing a rights issue.

AUSTRALIA closed marginally lower in directionless trade. The All Ordinaries index dipped 3.0 to 1,644.6. Tobacco issues lost ground on the US Supreme Court ruling that companies may be liable to personal injury claims arising from smoking. Rothmans tumbled 55 cents to A$7.20.

NEW ZEALAND saw heavy trade in Brierley and Carter Holt Harvey, while the NZSE-40 index shed 2.57 to 1,530.33. Carter Holt and Fletcher Challenge each lost a cent to NZ$2.63 and NZ$3.54 respectively.

BOMBAY fell in very light volume as trading resumed hesitantly, and some said nominally, after a 10-day boycott by stockbrokers. The BSE index dropped 59.46, or 1.90 per cent, to 3,081.32.

KARACHI built on Wednesday's gains, the 100-share index putting on 33.94 to 1,558.07 for a two-day rise of 69.46, or 4.7 per cent, as institutions bought fuel, energy and pharmaceutical shares.

SOUTH AFRICA

DEMAND for blue chips lifted the industrial index by 27 to 4,501 as investors ignored political developments to pick up bargains. The overall index rose 11 to 3,646 but the gold index fell 5 to 1,116 on the lower bullion price.

Accra reaches critical time in widening its equity base

Extensive divestment by the Ghanaian state, and new issues are in prospect, writes Julian Ozanne

A historic event occurred earlier this month for the young Ghana Stock Exchange. Super Paper Products, a Ghanaian manufacturing company, became the GSE's first new listing since it started operations in November 1990.

With blackboard and chalk, and a public trading floor laid out like a classroom, Ghana's nascent stock exchange is laying the foundations of what its officials hope will prove to be one of Africa's most promising emerging markets.

Given a current equity capitalisation of only C31bn ($77m) from 15 listed companies, the twice weekly call-over of offers and bids among the three registered brokers, acting mostly for individuals, appears slightly incongruous with the GSE's ambitions.

But Mr Yeboa Amoa, managing director of the GSE, says that after years of macro-economic adjustment and liquidity squeezes the stock exchange has arrived at a critical time: the government has deepened its commitment to the divestment of more than 330 state-owned companies; and private companies, having gained confidence in the economy, are looking at raising money through new issues.

Meanwhile, low volume and the limited number of shares in the public float are the market's major problems.

One of the greatest hopes of the GSE this year is that the government will agree to its proposals to float at least a part of the 55 per cent holding in Ashanti Goldfields in Accra. The government is preparing to sell up to 20 per cent of the equity in AGC, in which Lonrho, the international conglomerate, holds 45 per cent.

A possible dual flotation on the London and Accra exchanges has been suggested as one likely avenue for the divestiture of AGC, which posted a net profit of C23.5bn last year from production of 589,452 ounces of fine gold. Sixty per cent of the government's holdings in several state-owned banks, including the giant Ghana Commercial Bank, are also due to be divested within 18 months.

Mr Amoa also believes that Ghanaian companies such as Super Paper Products are now beginning to look seriously at the GSE as a means of raising capital, to expand their operations or pay off crippling debts. At least three new listings and three rights issues are expected within the next nine months.

Institutional investors, who previously put their money into high-interest treasury instruments, are also looking at the GSE as interest rates come down with falling inflation. Furthermore, the GSE is hoping to attract, by a nationwide media campaign, the estimated C80bn to C100bn of money circulating outside the banking system.

Critical changes in government policy, however, are anxiously awaited to give the GSE the boost it needs. First, the government has to make either administrative or legislative changes to allow participation of foreigners and non-resident Ghanaians in the GSE.

At the moment the Foreign Exchange Control Act would prevent foreigners from trading in shares on the GSE – a regulation out of step with the government's stated commitment to foreign investment and the protocols it has signed with the Economic Community of West African States (ECOWAS) to allow free movement of capital.

Mr Amoa says: "We want the big emerging markets funds and foreign pension funds to come here. Our aim is untrammeled access to this market."

The second measure which must be taken is to allow government bonds to be traded in the secondary market, and to abolish the 10 per cent withholding tax on dividends which makes government paper more attractive than equities. At the moment government bonds can only be resold to the central bank at a discount.

Finally, the members of the GSE are waiting for a clear timetable of the government's extensive divestiture plans, including its plans to sell significant shareholdings in companies already listed.

On an average trading day in Accra only 17,000 shares change hands. Good quality shares in sufficient quantity are not available and the market shows some distorted prices, such as Mobil Ghana's – trading at two times earnings in spite of having posted a 30 per cent dividend this month.

The GSE, however, believes its inevitable breakthrough is just about to happen.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY JUNE 24 1992								TUESDAY JUNE 23 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	147.74	+0.0	116.63	118.28	119.21	130.79	+0.2	4.18	147.70	117.51	118.76	120.21	130.56	153.68	140.94	140.24
Austria (19)	171.42	+0.7	135.33	137.24	138.32	138.35	+0.1	2.11	170.18	135.39	136.84	138.51	138.26	186.70	162.48	185.06
Belgium (46)	142.73	+1.4	112.68	114.26	115.16	112.46	+0.4	5.43	140.82	112.04	113.22	114.61	112.00	146.19	135.87	127.44
Canada (115)	124.52	+0.0	98.30	99.68	100.46	107.84	+0.0	3.40	124.51	99.06	100.11	101.33	107.88	142.12	124.32	139.44
Denmark (35)	239.80	+3.0	189.31	191.98	193.49	194.55	+2.1	1.83	232.85	185.25	187.22	189.51	190.57	273.94	226.81	242.35
Finland (15)	78.38	-0.2	60.30	61.15	61.63	67.79	-0.8	2.08	78.51	60.87	61.52	62.27	68.34	89.80	73.84	100.61
France (104)	161.40	+1.0	127.41	129.20	130.22	132.28	+0.2	3.53	159.75	127.10	128.44	130.01	132.06	168.75	148.06	126.92
Germany (65)	125.67	+0.5	99.21	100.62	101.40	101.40	-0.4	2.28	125.05	99.49	100.56	101.77	101.77	125.67	114.67	109.45
Hong Kong (55)	251.81	+1.1	198.79	201.59	203.19	249.97	+1.1	3.27	249.11	198.19	200.29	202.76	247.29	254.67	176.36	152.21
Ireland (16)	157.84	+0.2	124.61	126.36	127.36	128.97	-1.0	4.21	157.60	125.38	126.72	128.27	130.24	173.71	151.78	143.98
Italy (78)	70.31	+0.0	55.51	56.29	56.73	61.70	-0.8	3.38	70.28	55.91	56.50	57.20	62.19	80.86	68.39	75.63
Japan (473)	95.08	-0.8	75.06	76.12	76.73	76.12	-1.2	1.12	95.82	76.23	77.04	78.00	77.04	140.95	88.70	130.14
Malaysia (69)	239.81	+0.0	189.32	191.98	193.49	231.68	-0.1	2.73	239.74	190.73	192.75	195.11	231.84	250.18	212.49	236.66
Mexico (18)	1413.16	-0.3	1115.64	1131.36	1140.27	4823.02	-0.2	1.22	1417.92	1128.09	1140.08	1154.04	4832.21	1789.77	1376.91	981.93
Netherland (25)	160.80	+0.3	126.95	128.73	129.75	128.33	-0.6	4.37	160.36	127.58	128.94	130.52	129.07	165.22	147.88	132.97
New Zealand (14)	46.46	+1.1	36.68	37.20	37.49	45.30	+1.1	6.00	45.96	36.56	36.95	37.41	44.81	48.52	42.01	47.78
Norway (23)	177.26	+0.1	139.93	141.91	143.03	145.98	-0.8	1.74	177.01	140.83	142.33	144.07	147.16	192.95	161.26	192.86
Singapore (38)	222.88	+0.3	175.95	178.43	179.83	166.36	+0.2	1.99	222.13	176.73	178.61	180.79	166.09	229.63	192.76	195.95
South Africa (61)	219.05	+0.8	172.93	175.36	176.74	182.92	+0.2	2.82	217.34	172.91	174.75	176.88	182.53	263.80	203.16	229.61
Spain (50)	150.29	-0.8	118.65	120.32	121.27	111.24	-1.8	5.55	151.56	120.58	121.87	123.36	113.27	161.72	146.86	148.89
Sweden (28)	193.52	+1.6	152.78	154.93	156.15	160.57	+0.7	2.36	190.41	151.49	153.11	154.98	159.41	200.28	173.09	187.71
Switzerland (64)	107.73	+0.4	85.05	86.25	86.94	93.80	-0.4	2.29	107.26	85.33	86.25	87.31	94.19	109.43	95.99	89.27
United Kingdom (227)	190.83	-0.3	150.65	152.76	153.96	150.65	-1.0	4.95	191.32	152.21	153.81	155.70	152.21	200.07	165.85	159.68
USA (522)	164.56	-0.1	129.91	131.75	132.79	164.56	-0.1	3.04	164.74	131.07	132.47	134.09	164.74	171.86	160.92	150.27
Europe (795)	152.63	+0.2	120.49	122.19	123.16	122.53	-0.6	3.98	152.27	121.15	122.44	123.94	123.27	156.88	139.31	131.49
Nordic (101)	179.16	+1.9	141.44	143.43	144.56	141.99	+1.0	2.11	175.79	139.85	141.34	143.07	140.55	188.52	169.86	181.28
Pacific Basin (718)	102.24	-0.6	80.71	81.85	82.50	82.94	-0.9	1.49	102.82	81.81	82.68	83.69	83.72	141.97	94.40	131.00
Euro-Pacific (1513)	122.60	-0.2	96.78	98.14	98.92	99.26	-0.8	2.73	122.81	97.70	98.74	99.95	100.02	145.21	113.80	131.52
North America (637)	162.05	-0.1	127.93	129.74	130.77	160.70	-0.1	3.05	162.22	129.06	130.45	132.05	160.87	169.69	158.70	149.51
Europe Ex. UK (568)	129.64	+0.6	102.34	103.80	104.62	106.21	-0.3	3.27	128.88	102.53	103.64	104.92	106.51	131.77	121.81	114.10
Pacific Ex. Japan (245)	172.56	+0.5	136.22	138.17	139.25	153.61	+0.6	3.49	171.65	136.57	138.04	139.72	152.76	175.31	149.00	139.26
World Ex. US (1707)	124.52	-0.1	98.31	99.70	100.48	101.62	-0.7	2.74	124.71	99.22	100.28	101.50	102.35	146.91	116.45	133.29
World Ex. UK (2002)	132.02	-0.1	104.22	105.70	106.54	117.96	-0.4	2.58	132.17	105.16	106.28	107.59	118.43	150.58	127.21	135.92
World Ex. So. Af. (2168)	136.56	-0.1	107.81	109.34	110.20	120.44	-0.5	2.86	136.78	108.81	109.97	111.32	121.02	153.05	130.04	137.43
World Ex. Japan (1756)	160.47	+0.1	126.68	128.48	129.50	146.90	-0.2	3.40	160.36	127.58	128.95	130.54	147.25	165.40	153.20	143.50
The World Index (2229)	137.08	-0.1	108.22	109.75	110.62	121.01	-0.5	2.86	137.27	109.21	110.37	111.73	121.58	153.70	130.66	138.02

Constituent change 25/6/92: Name change: Catalana Gas to Gas Natural (Spain). Latest prices were unavailable for this edition.